1 SUPERIOR COURT OF THE STATE OF CALIFORNIA
2 FOR THE COUNTY OF LOS ANGELES
3 DEPARTMENT 308 HON. CHARLES MC COY, JUDGE
4 RICHARD BOEKEN,)
5 PLAINTIFF,)
6)
) CASE NO. BC226593
7 VS.)
)
8 PHILIP MORRIS,)
INCORPORATED, A)
9 CORPORATION; INTERNATIONAL)
HOUSE OF PANCAKES)
10 INCORPORATED, A)
CORPORATION.
11)
DEFENDANTS.)
12 _____)
13 REPORTER'S DAILY TRANSCRIPT OF PROCEEDINGS
14 WEDNESDAY, APRIL 25TH, 2001
15 APPEARANCES:
16 (FOR PLAINTIFF) LAW OFFICES OF
MICHAEL J. PIUZE
17 11755 WILSHIRE BLVD.
SUITE 1170
18 LOS ANGELES, CA 90025
19 (FOR DEFENDANTS) ARNOLD & PORTER
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20 JOHN CARLTON
777 S. FIGUEROA ST.
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LISA C. RIDLEY
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600 S. COMMONWEALTH AVE.
24 ROOM 308
LOS ANGELES, CA 90005
25
VOLUME 23 OF
26 PAGES 3581 THROUGH 3696
27
28
3581
1 LOS ANGELES, CALIFORNIA; WEDNESDAY, APRIL 25TH, 2001
2 9:00 A.M.
3 DEPARTMENT 308 HON. CHARLES MC COY, JUDGE
4
5 (THE FOLLOWING PROCEEDINGS
6 WERE HELD IN OPEN COURT IN
7 THE PRESENCE OF THE JURY.)
8
9 THE COURT: OUR JURY PANEL IS WITH US.
10 COUNSEL ARE PRESENT AS WELL.
11 COUNSEL, I HAVE A RULING TO GIVE
12 YOU. I WILL JUST GIVE YOU PAGE AND LINE NUMBERS ON
13 THE RULINGS ON WHAT OCCURRED YESTERDAY SO YOU WILL
14 KNOW.
15 MR. PIUZE: THAT WASN'T GOING TO BE THE
16 FIRST THING WE ARE GOING TO DO THIS MORNING.
17 THE COURT: I UNDERSTAND, BUT I CAN GIVE
18 IT TO YOU AND YOU CAN WRITE IT DOWN.
19 MR. PIUZE: ALL RIGHT.

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20 THE COURT: THEN YOU WILL HAVE IT.
21 ALL RIGHT, PAGE 5711, LINE 6
22 THROUGH 5714, LINE 7: OBJECTION OVERRULED.
23 5721, LINE 11 THROUGH 5724, LINE
24 24: SUSTAIN.
25 5731, LINE 23, THROUGH 5732, LINE
26 13: SUSTAINED.
27 THAT'S IT.
28 MR. PIUZE: ROBERT JOHNSON IS THE NEXT
3582
1 PLAINTIFF'S WITNESS.
2 THE COURT: THANK YOU, SIR.
3 MR. JOHNSON, IF YOU WOULD PLEASE
4 STEP UP HERE, SIR, JUST TO MY LEFT.
5
6
7 ROBERT JOHNSON,
8 CALLED AS A WITNESS BY THE PLAINTIFF, WAS SWORN
9 AND TESTIFIED AS FOLLOWS:
10 THE CLERK: YOU DO SOLEMNLY SWEAR THE
11 TESTIMONY YOU MAY GIVE IN THE CAUSE NOW PENDING
12 BEFORE THIS COURT, SHALL BE THE TRUTH, THE WHOLE
13 TRUTH AND NOTHING BUT THE TRUTH, SO HELP YOU GOD.
14 THE WITNESS: I DO.
15 THE CLERK: HAVE A SEAT.
16 IF YOU COULD STATE YOUR FIRST AND
17 LAST NAME, PLEASE.
18 THE WITNESS: MY NAME IS ROBERT JOHNSON,
19 J-O-H-N-S-O-N.
20 THE CLERK: THANK YOU.
21
22 DIRECT EXAMINATION
23
24 BY MR. PIUZE:
25 Q. GOOD MORNING.
26 A. GOOD MORNING.
27 Q. TELL US YOUR OCCUPATION, PLEASE.
28 A. I AM A FORENSIC ECONOMIST.
3583
1 Q. WHAT IS THAT?
2 A. BASICALLY A FORENSIC ECONOMIST IS
3 AN ECONOMIST WHO WOULD USE THE STANDARD TECHNIQUES
4 OF ECONOMIC ANALYSIS AND STATISTICS TO ASSIST IN
5 THE CALCULATION OR FRAMING OF DAMAGES, FOR EXAMPLE,
6 IF I WAS DOING THE INJURY TO SOMEBODY WHO WAS
7 WORKING, I WOULD TALK ABOUT THEIR LOST ABILITY TO
8 WORK, THEIR WAGES, THEIR BENEFITS, FUTURE MEDICAL
9 EXPENSES.
10 WHEN WE DEAL WITH ISSUES SUCH AS
11 PUNITIVE DAMAGES, WE TALK ABOUT THE FINANCIAL
12 HEALTH, WEALTH AND ECONOMIC STATUS OF THE
13 DEFENDANTS.
14 Q. OKAY. YOU KNOW WHO PETER FORMUZIS
15 IS?
16 A. YES, I DO.
17 Q. HE DOES WHAT YOU DO?
18 A. HE MOST CERTAINLY DOES.
19 Q. MR. FORMUZIS HAS COME AND GONE ON
20 THE ISSUE OF THE PRESENT CASH VALUE OF MR. BOEKEN'S
21 EARNINGS LOSS.
22 WHAT IS YOUR TOPIC TODAY, PLEASE.
23 A. MY TOPIC IS THE FINANCIAL HEALTH,
24 WEALTH AND ECONOMIC STATUS OF PHILIP MORRIS.

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25 Q. WHAT I AM ULTIMATELY GOING TO BE
26 ASKING HAS TO DO WITH YOUR OPINION OF, QUOTE, THE
27 FINANCIAL CONDITION, CLOSE QUOTE, OF PHILIP MORRIS;
28 OKAY?
3584
1 A. YES, I WILL LIMIT IT TO THAT.
2 Q. AND ULTIMATELY, WHAT I AM GOING TO
3 BE ASKING IS YOUR OPINION AS TO THE FINANCIAL
4 CONDITION OF PHILIP MORRIS, INC., WHICH IS THE
5 DOMESTIC TOBACCO ARM OF THE CORPORATION.
6 ARE YOU READY TO DO THAT?
7 A. YES, I AM.
8 Q. TELL US YOUR EDUCATIONAL BACKGROUND
9 THAT ALLOWS YOU TO BE A FORENSIC ECONOMIST.
10 A. I HAVE A BACHELORS DEGREE IN
11 BUSINESS ADMINISTRATION WITH A MAJOR IN ECONOMICS
12 FROM THE BARUCH COLLEGE OF THE CITY UNIVERSITY OF
13 NEW YORK.
14 I HAVE A MASTERS DEGREE IN BUSINESS
15 ADMINISTRATION WITH A MAJOR IN FINANCE AND
16 INVESTMENTS FROM STANFORD UNIVERSITY, GRADUATE
17 SCHOOL OF BUSINESS AND POST-GRADUATE TRAINING WITH
18 THE STRATEGIC PLANNING INSTITUTE AND THE AMERICAN
19 MANAGEMENT ASSOCIATION.
20 Q. DOES THE STRATEGIC -- SAY THOSE TWO
21 AGAIN.
22 A. STRATEGIC PLANNING INSTITUTE AND
23 THE AMERICAN MANAGEMENT ASSOCIATION.
24 Q. ARE THOSE TWO DIFFERENT THINGS OR
25 THE SAME?
26 A. THOSE ARE TWO DIFFERENT
27 ORGANIZATIONS.
28 Q. WHERE?
3585
1 A. THE STRATEGIC PLANNING INSTITUTES
2 IS LOCATED IN CONNECTICUT. THE AMERICAN MANAGEMENT
3 ASSOCIATION IS LOCATED IN, I THINK, THE
4 HEADQUARTERS IS CHICAGO.
5 Q. THANK YOU.
6 NOW, I WOULD LIKE TO YOU PLEASE
7 TELL THE JURY YOUR OCCUPATIONAL BACKGROUND?
8 A. SURE.
9 Q. YOUR WORK HISTORY LEANING UP UNTIL
10 NOW THAT ALLOWS YOU TO GIVE THE TYPE OF OPINIONS
11 YOU ARE GOING TO GIVE?
12 A. WELL, I WORKED ON WALL STREET AS AN
13 INVESTMENT ANALYST WITH THE FIRM DONALDSON, LUFKIN
14 & JENRETTE. OUR CLIENTS WERE THE TOP 100 FINANCIAL
15 INSTITUTIONS IN THE UNITED STATES, LIKE BANK OF
16 AMERICA, WELLS FARGO, THE CALIFORNIA STATE
17 RETIREMENT SYSTEM.
18 I WORKED FOR AMERICAN EXPRESS
19 INVESTMENT MANAGEMENT COMPANY AS AN ANALYST AND
20 PORTFOLIO MANAGER. WE MANAGED ABOUT 700 MILLION
21 DOLLARS OF MUTUAL FUNDS.
22 I ALSO WAS ASSISTANT DIRECTOR --
23 ASSISTANT TO THE DIRECTOR OF STRATEGIC PLANNING FOR
24 A DIVISION OF THE SINGER CORPORATION, H.R.B.
25 SINGER. OUR DIVISION DID SIGNAL INTELLIGENCE WORK
26 FOR VARIOUS AGENCIES OF THE DEPARTMENT OF DEFENSE
27 AND I WAS IN CHARGE OF THE MERGERS AND ACQUISITIONS
28 AREA.
3586

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1 ALSO, I WORKED AS ASSISTANT TO THE
2 DIRECTOR OF FINANCE AND THE CONTROLLER OF FMC
3 CORPORATION IN CALIFORNIA, SAN JOSE. THAT'S ABOUT
4 A THREE BILLION DOLLAR DIVISION. WE ARE PROBABLY
5 BEST KNOWN FOR THE BRADLEY FIGHTING VEHICLE USED IN
6 OPERATION DESERT STORM.
7 SINCE 1981 I HAVE BEEN TAKING MY
8 ACADEMIC TRAINING AND MY REAL WORLD EXPERIENCE AND
9 USING THEM TOGETHER IN THE FIELDS OF FORENSIC
10 ECONOMICS.
11 Q. SINCE 1981, WHERE HAVE YOU BEEN
12 WORKING FROM, GEOGRAPHICALLY?
13 A. GEOGRAPHICALLY, MY HOME BASE HAS
14 BEEN THE PALO ALTO AREA UP IN NORTHERN CALIFORNIA.
15 Q. SINCE 1981, HAVE YOU BEEN YOUR OWN
16 BOSS OR HAVE YOU WORKED FOR OTHER PEOPLE ALSO
17 GIVING YOUR OPINION?
18 A. I WORKED FOR ABOUT A YEAR WITH, FOR
19 ONE COMPANY AS A CONSULTANT. BUT SINCE 1982, I
20 HAVE HAD MY OWN COMPANY.
21 Q. WHAT'S THE NAME OF THE COMPANY?
22 A. ROBERT J. JOHNSON AND ASSOCIATES.
23 Q. NOW, DID MY FIRM PROVIDE YOU WITH
24 SOME MATERIALS THAT GOT YOU STARTED ON YOUR
25 ANALYSIS?
26 A. YES, THEY DID.
27 Q. WHAT, PLEASE.
28 A. THOSE MATERIALS WOULD HAVE BEEN THE
3587
1 BASIC, WHAT WE CALL THE FINANCIAL STATEMENTS FOR
2 PHILIP MORRIS. THIS WOULD HAVE BEEN THE ANNUAL
3 REPORT. THIS WOULD HAVE BEEN THE, WE CALL THEM
4 S.E.C. DOCUMENTS CALLED A 10-K AND A LOT OF THIS
5 INFORMATION WAS ACTUALLY, COULD BE GOTTEN, WE DID
6 EVENTUALLY GET SOME SUPPLEMENTAL INFORMATION FROM
7 THE ACTUAL PHILIP MORRIS WEB SITE.
8 Q. OKAY. I THINK BEFORE I GO FURTHER
9 I SHOULD GIVE THE FOLLOWING BACKGROUND INFORMATION.
10 ARE YOU A MEMBER OF THE AMERICAN
11 ECONOMIC ASSOCIATION?
12 A. YES, I AM.
13 Q. FOUNDING MEMBER OF THE NATIONAL
14 ASSOCIATION OF FORENSIC ECONOMISTS?
15 A. YES, I AM.
16 Q. LET'S TALK ABOUT THAT FOR A SECOND.
17 WHEN DID YOU HELP FOUND THAT
18 ORGANIZATION, PLEASE?
19 A. THAT WOULD HAVE BEEN JUST ABOUT
20 1985, '86.
21 Q. AND ALSO BEFORE WE GET TOO DEEPLY
22 INTO THE SUBJECT MATTER HERE, I WANT TO JUST TALK
23 ABOUT A COUPLE OF REPRESENTATIVE TYPES OF CASES YOU
24 HAVE DONE. CAN WE DO THAT?
25 A. SURE. LET'S SEE, SOME OF THE CASES
26 THAT I HAVE --
27 Q. CAN I LEAD YOU?
28 A. YES, YOU CAN.
3588
1 Q. BECAUSE I HAVE A LIST HERE AND I
2 WILL PICK THE ONES I LIKE. OKAY?
3 A. SURE.
4 Q. THERE WAS A DC-10 THAT CRASHED IN
5 CHICAGO SOMETIME AGO AND UNFORTUNATELY KILLED 273

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6 PEOPLE. WERE YOU ONE OF THE ECONOMISTS CHOSEN BY
7 THE DEFENSE ON THAT CASE WHEN MANY, MANY, MANY
8 WRONGFUL DEATH CLAIMS WERE FILED AS A RESULT OF
9 THAT?
10 A. YES, I WAS.
11 Q. THERE WAS A FIRE IN THE M.G.M.
12 GRAND HOTEL IN LAS VEGAS, AND AGAIN, UNFORTUNATELY,
13 RESULTED IN A LOT OF DEATHS.
14 WERE YOU INVOLVED IN LITIGATION
15 BETWEEN THE M.G.M. GRAND AND LLOYD'S OF LONDON THAT
16 AROSE OUT OF THAT?
17 A. YES, I DID. I REPRESENTED LLOYD'S.
18 Q. HOW ABOUT BECKS VERSUS TRANSWORLD
19 AIRWAYS, A CASE LIKE THAT?
20 A. YES, THAT WAS A CASE I DID
21 REPRESENT THE DEFENSE IN THAT CASE.
22 Q. T.W.A.?
23 A. YES.
24 Q. HAVE YOU WORKED FOR MY LAW FIRM
25 BEFORE?
26 A. I THINK THIS IS THE FIRST CASE THAT
27 WE HAVE DONE TO THE POINT OF TRIAL.
28 Q. HAVE THERE BEEN ONE OR TWO OTHERS
3589
1 THAT EITHER DIDN'T MAKE IT TO TRIAL OR I WASN'T THE
2 LAWYER AT TRIAL?
3 A. THAT IS CORRECT.
4 Q. NOW, LET'S GO TO THE FINANCIAL
5 CONDITION OF PHILIP MORRIS.
6 WHAT IN THEIR ECONOMIC, THEIR FINAL
7 REPORT, WHAT DO YOU CALL IT AGAIN, THE THING THEY
8 TURN INTO THE SHAREHOLDERS?
9 A. WELL, THERE'S TWO OF THEM. THERE'S
10 ONE THAT'S CALLED THE STANDARD ANNUAL REPORT AND
11 THEN THERE'S ANOTHER ONE THAT'S CALLED THE 10-K.
12 AND THE 10-K IS AN EXPANDED ANNUAL
13 REPORT THAT'S REQUIRED BY THE S.E.C. AND SO YOU
14 HAVE THE ANNUAL REPORT WHICH GOES OUT TO ALL THE
15 SHAREHOLDERS AND THEN YOU HAVE THIS LARGER VOLUME,
16 MORE DETAILED REPORT GENERATED BY THE COMPANY
17 CALLED THE 10-K.
18 THE ONLY OTHER THIRD PIECE THAT
19 THEY WOULD SEND TO THE SHAREHOLDERS WHICH WOULD BE
20 FOR VOTING WOULD BE THE PROXY STATEMENT.
21 Q. OKAY.
22 YOU DEAL WITH THIS STUFF ALL THE
23 TIME AND SO THE INITIALS JUST SLIP OFF YOUR TONGUE.
24 WHAT'S S.E.C.?
25 A. S.E.C. IS THE SECURITIES AND
26 EXCHANGE COMMISSION.
27 Q. ARE ALL CORPORATIONS OR JUST SOME
28 CORPORATIONS SUPPOSED TO FILE THESE 10-K'S WITH THE
3590
1 S.E.C.?
2 A. THAT'S CORRECT. THAT WOULD BE THE,
3 WHAT WE CALL PUBLICLY TRADED, IN OTHER WORDS, IF
4 THEY ARE TRADED ON THE STOCK EXCHANGE, THEY HAVE TO
5 FILE A SPECIFIC SERIES OF DOCUMENTS WITH THE S.E.C.
6 ACCORDING TO THEIR RULES.
7 Q. WHAT WAS IT IN EITHER OF THOSE
8 DOCUMENTS, IF ANYTHING, THAT WAS OF SIGNIFICANCE TO
9 YOU IN ORDER TO DETERMINE THE FINANCIAL CONDITION
10 OF PHILIP MORRIS, INC., WHICH IS THE DOMESTIC,

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11 U.S.A. TOBACCO, PLEASE?
12 A. SPECIFICALLY WITHIN THOSE
13 DOCUMENTS, WE WERE ABLE TO DETERMINE, AND THOSE
14 DOCUMENTS, AS I SAID, ARE PREPARED BY THE COMPANY,
15 SIGNED OFF BY THE SENIOR MANAGEMENT AND ALSO SIGNED
16 OFF BY THEIR ACCOUNTANTS, THEIR AUDITORS WHO AUDIT
17 THE FINANCIAL AUTHENTICITY OF THE NUMBERS THAT ARE
18 IN THE DOCUMENT.
19 BASICALLY, WHAT WE ARE ABLE TO FIND
20 IS ITEMS THAT TALK ABOUT A COMPANY'S SALES, THEIR
21 OPERATING INCOME, HOW MUCH THEY -- HOW THEY SPEND
22 SOME OF THEIR MONEY, HOW THEY HAVE GROWN.
23 SO, FOR EXAMPLE, IF A COMPANY'S
24 REVENUE HAS GONE UP, WHY HAS IT GONE UP. IF
25 A COMPANY'S PROFITS HAVE GONE UP, WHY HAVE THEY
26 GONE UP.
27 IF A COMPANY IS ABLE TO SPEND MONEY
28 AND TO PAY ITS LEADERS, HOW MUCH ARE THEY ABLE TO
3591
1 AFFORD TO PAY THEIR LEADERS.
2 SO WE GOT A LOT OF FINANCIAL
3 INFORMATION ON THEIR FINANCIAL CONDITION.
4 Q. WHY DON'T WE START OFF, PLEASE, BY
5 DISCUSSING THE DIFFERENCE BETWEEN PHILIP MORRIS'
6 COMPANIES, INC., AND PHILIP MORRIS, INC. CAN YOU
7 DO THAT?
8 A. SURE.
9 BASICALLY, PHILIP MORRIS COMPANIES,
10 INC., IS A, WHAT WE CALL A HOLDING COMPANY. IT HAS
11 OTHER COMPANIES UNDERNEATH IT, ONE OF THEM BEING
12 PHILIP MORRIS, INC., WHICH IS THE DOMESTIC TOBACCO
13 COMPANY.
14 THERE ARE A NUMBER OF OTHER
15 SUBSIDIARIES THAT THEY HAVE BUT IT IS THE HOLDING
16 COMPANY, IT'S SORT OF LIKE THE UMBRELLA. AND
17 UNDERNEATH THE UMBRELLA ARE ALL OF THESE OTHER
18 COMPANIES THAT ARE UNDER ITS CORPORATE TOTAL
19 OWNERSHIP.
20 AND SO YOU ARE LOOKING AT PHILIP
21 MORRIS, INC., IS THE DOMESTIC TOBACCO.
22 BY DOMESTIC, I MEAN, JUST U.S.A.
23 IN FACT, IT'S CALLED PHILIP MORRIS U.S.A.
24 SOMETIMES. THE DOMESTIC ARM OF PHILIP MORRIS
25 COMPANIES.
26 IT'S ONE PORTION, ONE SEGMENT.
27 Q. IS THERE A PLACE YOU CAN GO IN
28 EITHER OF THE DOCUMENTS THAT YOU HAVE MENTIONED TO
3592
1 REPORT ANNUAL REPORT OF THE 10-K AND FIND, BECAUSE
2 THIS IS WHAT I AM LOOKING FOR, THE BOTTOM LINE,
3 ULTIMATELY WHAT I AM LOOKING FOR, QUOTE, THE
4 FINANCIAL CONDITION, CLOSE QUOTES, OF PHILIP
5 MORRIS, INC., IN OTHER WORDS, THE TOBACCO COMPANY?
6 A. YES. THERE ARE PLACES WHERE YOU
7 CAN GO AND FIND OUT INFORMATION ABOUT THE FINANCIAL
8 CONDITION INSIDE THE ANNUAL REPORTS AND 10-K.
9 THERE ARE SOME CHARTS AND GRAPHS
10 AND SOME TABLES THAT TALK ABOUT THEIR OPERATING
11 REVENUE, THEIR SALES, TALK ABOUT THE OPERATING
12 INCOME, THAT TALK ABOUT WHAT THEY SPEND, IN OTHER
13 WORDS, CAPITAL EXPENDITURES, HOW MUCH YOU ARE ABLE
14 TO SPEND FOR A NEW PLANT AND EQUIPMENT AND MAJOR
15 OPERATIONS AND HOW MUCH THEY ARE ABLE TO AFFORD TO

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16 BE ABLE TO PAY THEIR LEADER, THE C.E.O. OF THEIR
17 COMPANY.
18 Q. OKAY.
19 IS THERE EVER, WITHIN THE 10-K, OR
20 IS THERE EVER WITHIN THE ANNUAL FINANCIAL REPORT, A
21 BOTTOM LINE WHERE IT'S BROKEN OUT WHAT THE
22 FINANCIAL CONDITION OF THE SUBSIDIARY U.S. TOBACCO
23 COMPANY IS OR DO YOU HAVE TO DO A LITTLE
24 CALCULATION IN ORDER TO GET THERE?
25 A. YES. THERE'S AN ITEM CALLED
26 OPERATING INCOME. AND THEY DO, WITHIN PHILIP
27 MORRIS, SEGREGATE OUT EACH ELEMENT, THE MAJOR
28 ELEMENTS, LIKE PHILIP MORRIS TOBACCO -- EXCUSE ME,
3593
1 PHILIP MORRIS, INC., U.S. TOBACCO, INTO THE
2 DIFFERENT SEGMENTS OF WHAT'S CALLED THE OPERATING
3 INCOME.
4 Q. OKAY. LET'S START WITH THAT.
5 RIGHT NOW, RIGHT NOW, I AM
6 INTERESTED ONLY IN PHILIP MORRIS, INC., WHICH IS
7 THE U.S. DOMESTIC TOBACCO COMPANY?
8 A. YES.
9 Q. AND THAT'S ALL I WANT TO TALK ABOUT
10 RIGHT NOW. ALL RIGHT?
11 A. YES.
12 Q. I HAVE GOT A COUPLE GRAPHS HERE
13 THAT I AM GOING TO SHOW IN WHILE, BUT FOR NOW I AM
14 NOT.
15 WHAT IS REVENUE? WHAT IS REVENUE
16 AND THEN I AM GOING TO ASK YOU WHAT'S INCOME AND
17 WHAT'S THE DIFFERENCE?
18 A. SURE. REVENUE IS THE AMOUNT OF
19 DOLLARS THAT A COMPANY COLLECTS FOR THE SALE OF ITS
20 GOODS OR SERVICES.
21 SO IF SOMEBODY GOES IN AND BUYS A
22 PACK OF CIGARETTES AT THE RETAIL LEVEL, WHATEVER
23 THEY PAY FOR THAT IS CONSIDERED THE REVENUE THAT
24 THE COMPANY GETS.
25 SO IN OTHER WORDS, THAT IS THE
26 COMPANY'S REVENUE, THAT WOULD BE THE, QUOTE,
27 UNQUOTE, THE REVENUE TO THE STORE.
28 WHATEVER THE STORE WINDS UP PAYING
3594
1 TO PHILIP MORRIS, SORT OF THE WHOLESALE PRICE,
2 THAT'S PHILIP MORRIS'S REVENUE.
3 SO WE ARE TALKING ABOUT REVENUE, WE
4 ARE TALKING ABOUT WHAT GOES INTO PHILIP MORRIS'S
5 CASH REGISTER. THEIR GROSS INCOME, THEIR GROSS
6 SALES OF THEIR PRODUCT, NOT WHAT THE RETAIL
7 ESTABLISHMENT MAY GET. BUT WHAT THE RETAIL
8 ESTABLISHMENT, THE WHOLESALER, WOULD PAY TO PHILIP
9 MORRIS. THAT'S THEIR REVENUE COMING IN THE DOOR.
10 Q. WHAT'S INCOME, WHAT'S THE
11 DIFFERENCE BETWEEN PHILIP MORRIS DOMESTIC TOBACCO,
12 INCOME, I AM NOT LOOKING FOR NUMBERS NOW, JUST
13 CONCEPT, AND REVENUE?
14 A. OKAY. REVENUE IS GENERALLY WHAT
15 YOU TAKE IN. INCOME, PARTICULARLY OPERATING
16 INCOME, IS AFTER YOU HAVE TAKEN OUT AND DEDUCTED
17 ALL OF THE EXPENSES.
18 SO, FOR EXAMPLE, FOR CIGARETTES,
19 THAT WOULD BASICALLY BE THE COST OF MANUFACTURING,
20 THE COST OF ADVERTISING, THE COST OF ANY TAX ITEMS

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21 THAT YOU MAY HAVE HAD TO PAY, ANY PAYMENTS,
22 SETTLEMENT PAYMENTS, ALL OF THAT IS DEDUCTED AND
23 YOU ARE LEFT WITH YOUR, WHAT'S CALLED YOUR
24 OPERATING INCOME.
25 THE ONLY THING YOU STILL HAVE TO
26 PAY IS SOME GENERAL CORPORATE OVERHEAD CHARGES FOR
27 HAVING THE CORPORATION DO WHAT IT DOES TO
28 FACILITATE THE BUSINESS.
3595
1 BUT BASICALLY, YOU ARE LOOKING JUST
2 ABOUT AT THE BOTTOM LINE BEFORE ANY INTEREST
3 PAYMENTS.
4 SO IT'S JUST ABOUT THAT BOTTOM,
5 BOTTOM LINE FIGURE.
6 Q. INCOME IS ALWAYS GOING TO BE LESS
7 THAN REVENUE?
8 A. YES.
9 Q. LET ME SHOW YOU, MR. CLERK, WHAT DO
10 YOU THINK, 10,006, DOES THAT SOUND ABOUT RIGHT?
11 THE CLERK: THAT'S GOOD.
12
13 * (EXHIBIT 10,006, BLOWUP,
14 MARKED FOR I.D.)
15
16 Q BY MR. PIUZE: LET ME SHOW YOU
17 10,006.
18 YOU HAVE SEEN A SMALLER VERSION OF
19 THAT BEFORE, HAVE YOU NOT?
20 A. YES, I HAVE.
21 MR. PIUZE: ACTUALLY, LET ME SHOW YOU
22 10,007 FIRST.
23
24 * (EXHIBIT 10,007, BLOWUP,
25 MARKED FOR I.D.)
26
27 Q BY MR. PIUZE: HAVE YOU SEEN A
28 SMALLER VERSION OF THAT?
3596
1 A. YES, I HAVE.
2 Q. WHAT DOES THAT MEAN?
3 A. THAT CHART IS THE OPERATING
4 REVENUES OF PHILIP MORRIS TOBACCO U.S.A., ALSO
5 KNOWN AS PHILIP MORRIS, INC.
6 AND THAT'S THEIR SALES, IT STARTS
7 IN 1998 AT 15.31 BILLION DOLLARS AND BY THE YEAR
8 2000 IT HAS INCREASED TO 22.658 BILLION DOLLARS,
9 CLOSE TO A 50 PERCENT INCREASE, 47.99 PERCENT.
10 Q. JUST SO WE CAN HAVE COMPLETENESS,
11 WHERE THIS LINE CROSSES THE 1999 -- WHERE WERE WE?
12 A. AT 19.596 BILLION DOLLARS.
13 Q. OKAY. SO OVER THE COURSE OF,
14 BETWEEN '98 AND 2000, THE SALES WENT UP CLOSE TO 50
15 PERCENT?
16 A. CORRECT.
17 Q. NOW, WE HAVE HEARD IN THIS TRIAL
18 THAT PEOPLE ARE SMOKING NOWADAYS, IF THE SALES WENT
19 UP BY 50 PERCENT, I GUESS, DOES THAT MEAN NATIONAL
20 CIGARETTES ARE MORE EXPENSIVE NOWADAYS?
21 A. WELL, WHEN YOU HAVE A VOLUME
22 DECREASE, IN OTHER WORDS, THE NUMBER OF UNITS THAT
23 ARE SOLD DROPS AND YOU STILL HAVE AN OVERALL
24 INCREASE IN TOTAL REVENUE, AND REVENUE YOU CAN
25 TYPICALLY DEFINE WHEN YOU SELL A PRODUCT IS THE

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26 UNIT COSTS OF THE REVENUE TIMES HOW MANY OF THOSE
27 UNITS YOU SOLD, THAT WILL GIVE YOU YOUR TOTAL
28 REVENUE.
3597
1 WHEN THE UNIT NUMBER DROPS, BUT THE
2 TOTAL REVENUE INCREASES, THAT INCREASE COMES
3 BECAUSE THE PRICE HAS GONE UP SIGNIFICANTLY.
4 AND THAT'S EXACTLY WHAT HAS
5 HAPPENED.
6 THE PRICE OF CIGARETTES HAS
7 INCREASED SIGNIFICANTLY OVER THOSE YEARS, SUCH THAT
8 YOU ARE ABLE TO SEE THAT SPECIFIC TYPE OF REVENUE
9 INCREASE.
10 Q. HAVE YOU DONE ANALYSES SIMILAR TO
11 WHAT WE ARE DOING HERE TODAY IN OTHER TYPES OF
12 OTHER CASES IN OTHER TYPES OF COMPANIES AND
13 PRODUCTS?
14 A. SURE.
15 Q. IS A 50 PERCENT INCREASE, I DON'T
16 WANT YOU TO NAME ANY COMPANIES NOW, I DON'T WANT TO
17 DO THAT, BUT IS A 50 PERCENT INCREASE IN SALES IN A
18 TWO-YEAR PERIOD OR A THREE-YEAR PERIOD, DEPENDING
19 ON HOW YOU LOOK AT IT, IS THAT A PRETTY HEALTHY
20 JUMP?
21 A. THAT'S REALLY GOOD. THAT'S VERY
22 GOOD.
23 Q. SO WHETHER OR NOT THERE ARE FEWER
24 PEOPLE OUT THERE SMOKING, THE MONEY COMING IN TO
25 PHILIP MORRIS IS INCREASING DRAMATICALLY?
26 A. SIGNIFICANTLY.
27 Q. HERE'S 10,006.
28 I GUESS I SHOULD OFFICIALLY SAY, IS
3598
1 THIS OUT OF THEIR COMPANY'S OFFICIAL DOCUMENTS TO
2 THE SHAREHOLDERS AND TO THE U.S. GOVERNMENT?
3 A. YES, THOSE NUMBERS THERE, THAT ARE
4 REPRESENTED ON THAT CHART, DO MATCH IDENTICALLY THE
5 NUMBERS FROM THE ANNUAL REPORT AND THE 10-K AND THE
6 DOCUMENTS PREPARED AND SENT TO THE SECURITIES
7 EXCHANGE COMMISSION. THESE ARE PHILIP MORRIS
8 NUMBERS.
9 Q. THIS IS 10,006.
10 NOW, THIS ONE ISN'T REVENUE, THIS
11 ONE ISN'T INCOME. TELL US, FOR OPENERS, PLEASE,
12 WHAT'S OPERATING INCOME?
13 A. WELL, BASICALLY, THE OPERATING
14 INCOME IS THE INCOME AFTER ALL OF THE COSTS, THE
15 GOODS, ADVERTISING, ALL OF THE EXPENSES HAVE BEEN
16 TAKEN OUT, TYPICALLY, WITH THE EXCEPTION OF
17 INTEREST, CORPORATE OVERHEAD, ANY APPROPRIATE, WHAT
18 THEY CALL MINORITY INTEREST ITEMS, BEFORE THEY HAVE
19 BEEN DEDUCTED.
20 SO BASICALLY WHAT YOU ARE LOOKING
21 AT WHEN THEY SAY OPERATING INCOME IS WHAT DOES IT
22 COST TO GET THE PRODUCT OUT THE DOOR, SOLD, TAKE
23 CARE OF ALMOST ALL OF YOUR EXPENSES. IT'S JUST
24 ABOUT THE BIG NUMBER BEFORE THE BOTTOM LINE.
25 Q. YOU HAVE SEEN A SMALLER VERSION OF
26 THAT ONE, HAVEN'T YOU?
27 A. YES, I HAVE.
28 Q. SO I GUESS IT DOESN'T MATTER IF YOU
3599
1 CAN ACTUALLY SEE THAT OR NOT NOW.

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2 BUT OVER THE COURSE OF THE
3 THREE-YEAR PERIOD, '98 TO 2000, DOES THIS CHART
4 ACCURATELY SHOW HOW MUCH THE OPERATING INCOME HAS
5 GONE UP?
6 A. YES, IT DOES. IT SHOWS IT GOING
7 FROM 1 BILLION, 489 MILLION IN '98 TO 4 BILLION,
8 865 MILLION IN '99 TO 5 BILLION, 350 MILLION IN THE
9 YEAR 2000.
10 Q. NOW, I'D LIKE TO DRAW YOUR
11 ATTENTION AND EVERYBODY'S ATTENTION TO THESE
12 NUMBERS UP HERE WHERE WE ARE TALKING ABOUT THE
13 INCREASE OVER THE PERIOD OF '98 TO 2000.
14 BEFORE I DO, THOUGH, I HAVE BEEN
15 SORT OF STAMMERING ON WHETHER THIS IS A THREE-YEAR
16 PERIOD OR WHETHER THIS IS A TWO-YEAR PERIOD.
17 WHY DON'T YOU JUST TELL ME WHAT
18 PERIOD IT IS SO I WON'T HAVE TO BE GIVING
19 ALTERNATIVES ANY MORE.
20 A. THEY ARE THE PERIODS FROM 1998 TO
21 2000. SO YOU HAVE GOT A TOTAL OF THREE CALENDAR
22 YEARS WITH TWO INTERVAL YEARS.
23 Q. SO WHAT'S THE RIGHT THING FOR ME TO
24 SAY, TWO-YEAR INCREASE OR THREE-YEAR INCREASE?
25 A. IT'S OVER -- BOTH ARE CORRECT.
26 IT'S OVER A THREE YEAR PERIOD FROM '98 AND 2000.
27 THE INTERVALS ARE TWO YEARS.
28 Q. WELL, HAVING SOLVED THAT, WHY --
3600
1 WITHDRAW "WHY."
2 WHAT IS THE SIGNIFICANCE OF THE
3 FACT THAT ALTHOUGH THE REVENUE CURVE HAS GONE WAY
4 UP, 50 PERCENT, THE OTHER ONE IS WAY BEYOND THAT,
5 ALMOST 260 PERCENT?
6 A. WELL, THE REASON FOR THE
7 SIGNIFICANT INCREASE IN THE OPERATING REVENUE --
8 EXCUSE ME -- THE OPERATING INCOME VERSUS THE
9 OPERATING REVENUE IS ONE -- IS A GROSS FIGURE, ONE
10 FOR HIGHER BASE, NUMBER 1, AND THE SECOND IS WHEN
11 WE GO TO THE OPERATING REVENUE, YOU WILL PICK UP
12 ANY ADDITIONAL COST THAT MAY BE IN THERE.
13 FOR EXAMPLE, IF SOMEBODY RAISES
14 THEIR PRICES BUT THEIR COSTS GO UP, THEN YOU WOULD
15 NOT EXPECT THE REVENUE -- THE COSTS TO GO UP AS
16 MUCH.
17 BUT THE BIGGEST REASON WE ARE
18 STARTING FROM A MUCH SMALLER BASE ON THAT BASIS.
19 IF YOU LOOK AT THE OPERATING
20 INCOME, THAT'S A BASE OF 1 -- ALMOST 1.5 BILLION
21 AND THE OTHER ONE YOU ARE STARTING FROM A BASE OF
22 15 BILLION.
23 SO THE INCREASE WILL SIGNIFICANTLY
24 APPEAR GREATER.
25 Q. I ASKED YOU BEFORE ABOUT OTHER
26 CASES, OTHER ANALYSIS AND OTHER COMPANIES AS FAR AS
27 AN INCREASE IN REVENUES ARE CONCERNED.
28 I AM GOING TO ASK YOU THE SAME
3601
1 QUESTION, AGAIN, CAUTION YOU NOT TO MENTION THE
2 COMPANIES OR THE INDUSTRIES, BUT OVER A PERIOD OF
3 THREE REPORTING YEARS, IS AN INCREASE IN PROFITS OF
4 ABOUT 260 PERCENT COMMON?
5 A. NO.
6 Q. IS THAT, LIKE IF YOU WERE GRADING

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7 THAT ON A PERFORMANCE, A, B, C, D, DOUBLE A OR
8 TRIPLE A OR WHATEVER, WHERE DOES THAT FALL?
9 A. FOR MOST FORTUNE 500 COMPANIES THAT
10 IS EXTREMELY GOOD. THAT'S, I'D CALL THAT A PLUS.
11 Q. AND THUS FAR, WE ARE ONLY TALKING
12 ABOUT NUMBERS FOR PHILIP MORRIS, INC., WHICH IS THE
13 UNITED STATES OF AMERICA TOBACCO DIVISION; RIGHT?
14 A. ONLY, THAT'S ALL, NOTHING ELSE.
15 Q. IS THERE ANY PLACE IN THE 10-K OR
16 THE REPORT TO THE SHAREHOLDERS WHERE IT SAYS HERE
17 IS THE VALUE OF PHILIP MORRIS TOBACCO U.S.A. OR
18 HERE IS THE VALUE OF PHILIP MORRIS, INC.?
19 A. NO.
20 Q. SO --
21 A. THERE'S NO ONE SPOT WHERE THEY SAY
22 HERE'S THE VALUE, NO.
23 Q. SO IF I WANTED, AS I HAVE DONE FOR
24 THIS TRIAL, TO GO IN A SUPERMARKET AND BUY A WHOLE
25 BUNCH OF CARTONS OF MARLBOROS, THERE'S A PRICE
26 RIGHT ON THEM AND I KNOW EXACTLY WHAT I GOT TO PAY
27 FOR THEM?
28 A. THAT IS CORRECT.
3602
1 Q. ANY PLACE IN THE DOCUMENTS THAT YOU
2 HAVE BEEN MENTIONING, IS THERE A PRICE FOR PHILIP
3 MORRIS, INC.?
4 A. NO.
5 Q. IN ORDER TO FIGURE OUT THE
6 FINANCIAL CONDITION OF THE COMPANY, CAN YOU USE
7 SOME OF THE OTHER NUMBERS IN THOSE REPORTS IN ORDER
8 TO COME UP WITH WHAT YOU BELIEVE MAY BE REASONABLE
9 PRICES FOR THE COMPANY?
10 A. YES, YOU CAN. YOU CAN USE SOME OF
11 THE DATA THAT'S INSIDE THE REPORT TO SORT OF FRAME
12 VALUATIONS OF THE COMPANY.
13 Q. HOW?
14 A. WELL, ONE OF THE WAYS YOU CAN DO IT
15 IS BY LOOKING AT THE SALES OF THAT SEGMENT AS A
16 PORTION OF THE SALES OF THE ENTIRE COMPANY AND LOOK
17 AT WHAT THE ENTIRE COMPANY IS, WHAT WE CALL THE
18 MARKET CAPITALIZATION OF THE COMPANY, IN OTHER
19 WORDS, THE PARENT COMPANY WHICH IS TRADED ON THE
20 STOCK EXCHANGE, YOU CAN SEE HOW MUCH THAT COMPANY
21 IS WORTH.
22 BECAUSE YOU LOOK AT THE NUMBER OF
23 SHARES TIMES THE PRICE PER SHARE AND THAT WILL GIVE
24 YOU THE TOTAL VALUE IN TERMS OF THE, WHAT THE STOCK
25 MARKET SAYS THE COMPANY IS WORTH.
26 AND THEN YOU CAN SAY, WELL, IF THIS
27 SEGMENT OF THE COMPANY IS, LET'S SAY, HALF OF IT,
28 THEN ONE CAN TAKE AND FRAME AND SAY, WELL, IF
3603
1 HALF -- IF THE PART OF THE COMPANY THAT GENERATES
2 HALF THE SALES COULD BE WORTH HALF OF WHAT THE
3 STOCK MARKET VALUE IS.
4 AND SO THAT'S ONE WAY OF LOOKING
5 AND VALUING THE COMPANY AS A PERCENT OF SALES
6 RELATIVE TO ITS MARKET CAPITALIZATION.
7 Q. NOW, IF MR. BOEKEN OR ANYONE WHO
8 READ THE WALL STREET JOURNAL OR THE STOCK PAGES OF
9 THE NEWSPAPER WENT TO LOOK UP WHAT A SHARE IS
10 TRADING AT, WOULD A PERSON BE ABLE TO EVER SEE WHAT
11 A SHARE OF PHILIP MORRIS TOBACCO U.S.A. IS TRADING

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12 AT?
13 A. NO.
14 Q. AND I KNOW THIS IS JUST MY
15 SHORTHAND TO YOU, WOULD ANYONE BE ABLE TO LOOK UP
16 AND FIND OUT WHAT A SHARE OF PHILIP MORRIS, INC.,
17 THAT'S THE OFFICIAL NAME FOR THE DOMESTIC TOBACCO
18 COMPANY, WOULD ANYONE BE ABLE TO FIND OUT WHAT
19 PHILIP MORRIS, INC., IS TRADING AT?
20 A. NO, THEY WOULD NOT.
21 Q. WOULD A PERSON ONLY BE ABLE TO FIND
22 OUT WHAT A SHARE OF THE PARENT COMPANY IS TRADING
23 AT?
24 A. THAT IS CORRECT. YES, THAT'S THE
25 ONLY THING THAT WOULD BE TRADED.
26 Q. AND THAT WOULD BE PHILIP MORRIS
27 COMPANIES, INC.?
28 A. THAT IS CORRECT.
3604
1 Q. WELL, HOW DO YOU KNOW HOW MUCH
2 SHARES OF PHILIP MORRIS, COMPANIES, INC., ARE OUT
3 THERE?
4 A. YOU LOOK IN THE ANNUAL REPORT AND
5 THEY TELL YOU WHAT IS THE NUMBER OF SHARES
6 OUTSTANDING.
7 Q. YOU HAVE DONE THAT?
8 A. YES, I HAVE.
9 Q. AND IF YOU LOOK IN THE NEWSPAPER
10 AND FIGURE OUT HOW MUCH ONE SHARE OF STOCK IS
11 SELLING FOR, AND YOU MULTIPLY IT BY ALL THOSE
12 SHARES OUT THERE, WHAT DOES THAT GET YOU? WHAT'S
13 THAT CALLED?
14 A. THAT'S CALLED THE MARKET
15 CAPITALIZATION.
16 Q. WHAT DOES THAT MEAN?
17 A. AGAIN, THAT SIMPLY MEANS IF YOU
18 TAKE THE PRICE PER SHARE TIMES THE NUMBER OF SHARES
19 OUTSTANDING, THAT GIVES YOU THE TOTAL MARKET
20 CAPITALIZATION OF THE VALUE OF THE COMPANY AS
21 MEASURED BY THE STOCK MARKET.
22 Q. SO IF SOMEONE HAD A REALLY BIG
23 CHECKBOOK AND WENT OUT AND BOUGHT UP ALL OF THE
24 SHARES FOR WHAT THEY ARE TRADING AT TODAY, IT WOULD
25 COST "X"; RIGHT?
26 A. THAT IS CORRECT.
27 Q. WHAT'S "X"?
28 A. "X," AS OF THE 23RD OF APRIL, WAS,
3605
1 AND THIS IS "X" FOR PHILIP MORRIS, INC., OR "X" FOR
2 PHILIP MORRIS COMPANIES.
3 Q. PHILIP MORRIS COMPANIES, INC., THE
4 THING THAT YOU CAN ACTUALLY LOOK UP IN THE REPORT
5 AND ON THE STOCK MARKET?
6 A. THAT WOULD BE APPROXIMATELY 105
7 BILLION DOLLARS.
8 Q. SO IF SOMEONE WANTED TO TAKE OUT
9 THEIR CHECKBOOK AND SAY I AM BUYING THIS WHOLE
10 COMPANY HERE, IF YOU WANTED TO BUY EVERY SHARE
11 OUTSTANDING AT THE PRICE THAT THE SHARES ARE
12 SELLING FOR RIGHT NOW, YOUR CHECK BOOK HAS TO GO UP
13 TO 100 BILLION BUCKS?
14 A. PLUS.
15 Q. 105?
16 A. 105.

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17 Q. WELL, I AM NOT BUYING.
18 KNOWING THAT -- KNOWING THAT --
19 A. YES.
20 Q. -- DON'T FORGET, I AM ALWAYS
21 WANTING TO COME BACK, THE BOTTOM LINE IS ALWAYS
22 GOING TO BE PHILIP MORRIS, INC., WHICH IS THE
23 DOMESTIC TOBACCO COMPANY?
24 A. UNDERSTOOD.
25 Q. SO KNOWING WHAT THE PARENT OR
26 UMBRELLA COMPANY, COMPANY'S CAPITALIZATION IS, HOW
27 DOES THAT HELP US FIGURE OUT THE FINANCIAL
28 CONDITION OF PHILIP MORRIS, INC., THE DOMESTIC
3606
1 TOBACCO COMPANY?
2 A. WELL, IN TERMS OF LOOKING AT A WAY
3 OF FRAMING ITS VALUE, SINCE THERE IS A PERCENT OF
4 THE TOTAL COMPANY SALES THAT REPRESENTS THE TOBACCO
5 SEGMENT, AND YOU CAN LOOK AND SAY, WELL, WHAT
6 PERCENTAGE OF THE TOTAL COMPANY'S SALES REPRESENTS
7 THE TOBACCO, TAKE THAT TOBACCO PERCENTAGE AND APPLY
8 THAT AGAINST THE MARKET CAPITALIZATION.
9 AND THAT'S WHAT WE CALL VALUE BASED
10 ON A PERCENT OF SALES BASIS.
11 Q. ARE YOU GOING TO, IN RESPONSE TO --
12 LET ME WITHDRAW THAT.
13 ARE YOU PREPARED TO, IN RESPONSE TO
14 MY SERIES OF QUESTIONS HERE NOW, GIVE SEVERAL
15 DIFFERENT METHODS THAT YOU BELIEVE ARE VALID IN
16 SHOWING THE FINANCIAL CONDITION OF PHILIP MORRIS,
17 INC.?
18 A. YES.
19 Q. IS THIS THE FIRST?
20 A. THIS IS THE FIRST.
21 Q. OKAY, SO WE ARE TALKING ABOUT TOTAL
22 REVENUE NOW; RIGHT?
23 A. THAT IS CORRECT.
24 Q. HERE'S 10008.
25
26 * (EXHIBIT 10,008, BLOWUP,
27 MARKED FOR I.D.)
28 /// /// ///
3607
1 Q BY MR. PIUZE: YOU HAVE SEEN THAT
2 BEFORE?
3 A. YES, I HAVE.
4 Q. WHAT DOES IT MEAN, PLEASE?
5 A. THIS IS PHILIP MORRIS COMPANIES,
6 AND BASICALLY WHAT IT SAYS IS IT HAS ALL THE
7 DIFFERENT DIVISIONS AND IT SAYS THAT IF YOU LOOK AT
8 PHILIP MORRIS TOBACCO, U.S.A., PHILIP MORRIS, INC.,
9 IT'S 28.2 PERCENT OF THE TOTAL REVENUE OF PHILIP
10 MORRIS COMPANIES, WHICH IS THE 22.658 BILLION
11 DOLLARS.
12 Q. WHAT'S THE TOTAL REVENUE OF THE
13 PARENT COMPANY, PLEASE.
14 A. 80 BILLION.
15 Q. HERE'S 10,007-A.
16
17 * (EXHIBIT 10,007-A, BLOWUP,
18 MARKED FOR I.D.)
19
20 Q BY MR. PIUZE: IS THAT SORT OF THE
21 SAME INFORMATION IN A SLIGHTLY DIFFERENT FORM?

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22 A. YES, IT IS.
23 IT IS THE 2000 REVENUES FROM THE
24 ANNUAL REPORT, THE PHILIP MORRIS COMPANIES, IT'S
25 TOTAL REVENUE OF 80.356 BILLION WITH THE PHILIP
26 MORRIS, INC., THE TOBACCO DOMESTIC SECTION, AT 28.2
27 PERCENT OF THE TOTAL REVENUE FOR PHILIP MORRIS,
28 COMPANIES.
3608
1 Q. THAT 80 FIGURE AT THE TOP, YOUR
2 NUMBER, MY NUMBER, PHILIP MORRIS'S NUMBER?
3 A. PHILIP MORRIS'S NUMBER.
4 Q. SO WHAT? SO WE KNOW THAT THE SALES
5 OF THE U.S. TOBACCO -- WE KNOW THAT THE SALES OF
6 THE U.S.A. TOBACCO IS 28 PERCENT OF THE SALES OF
7 THE BIG PARENT COMPANY.
8 A. THAT IS CORRECT.
9 Q. WHAT ARE YOU GOING TO DO WITH THAT?
10 A. WELL, THE NEXT STEP IS WE TAKE THAT
11 AND MULTIPLY IT BY THAT 28.2 PERCENT AND MULTIPLY
12 IT BY THE TOTAL MARKET CAPITALIZATION THAT WE SPOKE
13 ABOUT EARLIER, THE 105 BILLION DOLLARS. AND THAT
14 GIVES US A NET FIGURE OF APPROXIMATELY 30 BILLION
15 DOLLARS.
16 Q. SO IF YOU WERE TO -- THANK YOU.
17 IF YOU WERE TO VALUE THE DOMESTIC
18 TOBACCO COMPANY BASED ON ITS PERCENTAGE OF SALES,
19 TO THE PARENT COMPANY, IF YOU CHOSE THAT METHOD OF
20 VALUATION, THE DOMESTIC TOBACCO COMPANY IS WORTH 30
21 BILLION DOLLARS?
22 A. THAT IS CORRECT.
23 Q. AND JUST REMIND US, PLEASE, AS OF
24 WHEN, WHAT DATE DID THOSE NUMBERS COME OUT OF THE
25 NEWSPAPER, THE STOCK QUOTES?
26 A. APRIL 23RD, 2001.
27 Q. MONDAY?
28 A. THAT IS CORRECT.
3609
1 Q. NOW, CAN YOU DO THE SAME THING, NOT
2 BASED ON SALES, BUT BASED ON INCOME?
3 A. YES, YOU CAN.
4 Q. HOW?
5 A. WELL, YOU GO THROUGH THE SAME
6 PROCESS. YOU LOOK AT THE TOTAL OPERATING INCOME
7 FOR PHILIP MORRIS COMPANIES AND THEN YOU LOOK AT
8 WHAT IS THE OPERATING INCOME FOR PHILIP MORRIS,
9 INC., THAT TOBACCO SECTION.
10 YOU DO THE SAME PROPORTIONAL
11 ANALYSIS OF THE TOBACCO TO THE WHOLE OF THE COMPANY
12 AND YOU CAN APPLY THAT AGAINST THE MARKET
13 CAPITALIZATION AS WE GET CLOSER TO THE BOTTOM LINE,
14 SEEING EXACTLY WHAT THE RATIO IS, AGAIN, GETTING A
15 MARKET VALUATION OF THE COMPANY BASED ON ITS
16 OPERATING INCOME.
17 Q. HERE'S 10,009.
18
19 * (EXHIBIT 10,009, BLOWUP,
20 MARKED FOR I.D.)
21
22 Q BY MR. PIUZE: YOU HAVE SEEN THAT
23 ONE BEFORE?
24 A. YES, I HAVE.
25 Q. I CAN DO THE WORK OF ONE EASEL.
26 GO AHEAD, EXPLAIN THAT, PLEASE.

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27 A. SURE.
28 THE OPERATING INCOME THAT WE HAVE
3610
1 HERE FOR PHILIP MORRIS COMPANIES BASICALLY BREAKS
2 DOWN THE TOTAL FIGURES FOR PHILIP MORRIS COMPANIES
3 WHICH IS APPROXIMATELY ABOUT -- IS THE 5.350
4 BILLION OF THE -- WHICH IS TOBACCO, OR
5 APPROXIMATELY 32.97 PERCENT.
6 Q. LET ME INTERRUPT YOU NOW. YOU SAID
7 TOBACCO. I AM INTERESTED IN DOMESTIC TOBACCO,
8 U.S.A. TOBACCO.
9 A. THIS IS ONLY U.S.A. TOBACCO. SO
10 IT'S -- THERE'S NO INTERNATIONAL. THIS IS PHILIP
11 MORRIS, INC., ALSO KNOWN AS PHILIP MORRIS, U.S.A.,
12 ONLY DOMESTIC TOBACCO.
13 Q. SO THE RATIO OR -- LET'S TALK
14 PERCENTAGE. THE PERCENTAGE OF PHILIP MORRIS
15 INC.'S, THAT'S THE DOMESTIC TOBACCO COMPANY,
16 PROFITS, TO THE PARENT CORPORATION, IS WHAT?
17 A. APPROXIMATELY 33 PERCENT, 32.97
18 PERCENT.
19 Q. AND HERE'S 10,009-A.
20
21 * (EXHIBIT 10,009-A,
22 ILLUSTRATION, MARKED FOR I.D.)
23
24 Q BY MR. PIUZE: DOES THAT, IN REAL
25 SIMPLE FORM, SHOW THE PERCENTAGE OF PROFITS OF THE
26 DOMESTIC TOBACCO COMPANY TO THE PARENT?
27 A. YES, IT DOES.
28 Q. I WILL ASK YOU AGAIN, SO WHAT?
3611
1 SO WE KNOW IT'S A THIRD, WHAT ABOUT
2 IT? HOW DOES THAT HELP US FIGURE OUT THE FINANCIAL
3 CONDITION OF PHILIP MORRIS, INC., THE DOMESTIC
4 TOBACCO COMPANY, PLEASE.
5 A. WELL, NOW IF YOU ARE GOING TO VALUE
6 THE COMPANY, BASED ON ITS -- WHAT PORTION DOES THE
7 DOMESTIC TOBACCO CONSIST OF, THE TOTAL MARKET
8 CAPITALIZATION, YOU WOULD TAKE THAT 32.97 PERCENT,
9 APPROXIMATELY 33 PERCENT AND APPLY THAT AGAINST THE
10 105 BILLION DOLLAR MARKET CAPITALIZATION, GIVE YOU
11 A MARKET VALUE OF APPROXIMATELY 35 BILLION DOLLARS,
12 AS TO THE MARKET VALUE OF PHILIP MORRIS, INC.
13 Q. DOING IT THAT WAY, 30 BILLION,
14 DOING IT THAT WAY, 35 BILLION?
15 A. THAT IS CORRECT.
16 Q. I AM SHOWING 10,008 NOW. DOING IT
17 THAT WAY, 30 BILLION?
18 A. CORRECT. BASED ON REVENUE.
19 Q. DOING IT THAT WAY.
20 A. BASED ON INCOME, 35 BILLION.
21 Q. IS EITHER OF THOSE MORE VALID THAN
22 THE OTHER?
23 A. NO. THEY ARE BOTH DIFFERENT WAYS
24 OF LOOKING AT THE VALUATION. FROM AN INVESTOR'S
25 STANDPOINT, IT DEPENDS WHAT YOU ARE GOING TO DO
26 WITH THE COMPANY AS TO WHICH ONE MAY OR MAY NOT BE
27 MOST APPROPRIATE.
28 ALSO, THERE ARE OTHER METHODS OF
3612
1 DOING EVALUATIONS THAT DON'T INCLUDE SORT OF AN
2 OUTSIDE VALUATION OF THE COMPANY THAT CAN BE

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3 DERIVED FROM INTERNAL VALUATION OF THE COMPANY.
4 Q. I AM GOING ON TO A THIRD EXAMPLE
5 NOW, FIGURING OUT THE FINANCIAL CONDITION OF PHILIP
6 MORRIS, INC.
7 DOES IT HAVE TO DO WITH AN
8 ACQUISITION MADE BY PHILIP MORRIS, INC.?
9 A. YES, IT DOES.
10 Q. EXPLAIN, PLEASE.
11 A. WELL, IN 1998, '99, PHILIP MORRIS,
12 INC., THE DOMESTIC TOBACCO COMPANY, PURCHASED THE
13 TRADE MARKS, THE BRAND NAMES, ET CETERA, OF THREE
14 CIGARETTE BRANDS. THOSE ARE L&M, LARK AND
15 CHESTERFIELD. SO THEY HAVE BOUGHT THE RIGHTS TO
16 MANUFACTURE CIGARETTES UNDER THOSE NAMES.
17 THE PRICE THEY PAID WAS 300 MILLION
18 DOLLARS.
19 SO THEY PAID --
20 Q. LET ME STOP YOU, PLEASE, AND I
21 APOLOGIZE.
22 LET'S BE SURE WHAT THEY PAID FOR.
23 ASIDE FROM THE ABILITY TO USE THE
24 NAME, DID THEY GET ANYTHING ELSE?
25 A. NO. THIS BOUGHT THEM THE RIGHT TO
26 THE BRAND, THE TRADE MARKS.
27 Q. OKAY, SORRY TO INTERRUPT?
28 A. THEY PAID 300 MILLION DOLLARS.
3613
1 NOW, THESE BRANDS REPRESENTED, IN TERMS OF UNIT
2 VOLUME, UNIT SALES, TWO-TENTHS OF A PERCENT OF THE
3 ENTIRE DOMESTIC TOBACCO MARKET.
4 Q. ONE-FIFTH OF ONE PERCENT?
5 A. YES. IT'S 0.2 PERCENT. SO THEY
6 PAID 300 MILLION DOLLARS SO THEY COULD HAVE THE
7 RIGHT TO NAME CIGARETTES. THAT WAS WORTH
8 TWO-TENTHS OF A PERCENT OF THE WHOLE MARKET.
9 IF WE TAKE AND SAY, IF THEY ARE
10 WILLING TO SPEND, IN THEIR MIND, 300 MILLION
11 DOLLARS TO BUY TWO-TENTHS OF A PERCENT,
12 EFFECTIVELY, OF THE DOMESTIC MARKET, AND WHAT DOES
13 THAT SAY ABOUT HOW THEY VALUE -- THIS ISN'T ANYBODY
14 ELSE THAT PAID 300 MILLION. THEY PAID 300 MILLION.
15 THEY VALUED THE ENTIRE DOMESTIC MARKET.
16 WELL, IF TWO-TENTHS OF A PERCENT IS
17 WORTH 300. YOU JUST DO THE MATH, AND YOU COME UP
18 WITH A FIGURE THAT SAYS THE WHOLE MARKET IS WORTH
19 APPROXIMATELY 150 BILLION DOLLARS.
20 AND WHEN YOU DO IT FROM THAT
21 PERSPECTIVE AND YOU SAY IF THE WHOLE MARKET IS
22 WORTH 150 BILLION, WHAT SHARE OF THE MARKET DOES
23 PHILIP MORRIS U.S.A., DOMESTIC TOBACCO HAVE?
24 WELL, THEY HAVE 49.6 PERCENT OF THE
25 ENTIRE MARKET.
26 SO IF THE WHOLE MARKET IS WORTH 150
27 BILLION, THEY -- AND THEY HAVE 49.6 BILLION, THEN
28 THEIR SHARE OF THE WHOLE MARKET, ACCORDING TO WHAT
3614
1 THEY ARE WILLING TO PAY, IS APPROXIMATELY 75
2 BILLION DOLLARS.
3 SO IF YOU ARE GOING TO DO A
4 VALUATION BASED ON WHAT THEY'RE WILLING TO TAKE OUT
5 OF THEIR POCKET AND BUY A SHARE OF THE MARKET COMES
6 OUT TO BE APPROXIMATELY 75 BILLION DOLLARS.
7 Q. I ASKED YOU BEFORE, WHEN I HAD

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8 THESE TWO UP HERE, USING A PERCENTAGE OF REVENUES,
9 I THINK THE NUMBER WAS 30?
10 A. THAT IS CORRECT.
11 Q. USING A PERCENTAGE OF PROFITS,
12 EXCUSE ME, INCOME, AM I DOING THAT RIGHT? YEAH,
13 INCOME, I BELIEVE IT'S 35 BILLION?
14 A. YES.
15 Q. AND YOU SAID YOU HAD NO FAVORITE
16 BETWEEN THEM AND JUST DIFFERENT WAYS OF DOING IT,
17 SO NOW YOU HAVE GIVEN ANOTHER WAY OF DOING IT. THE
18 NUMBER IS WAY BIGGER. DO YOU HAVE ANY FAVORITES
19 BETWEEN THESE THREE?
20 A. THEY ARE ALL VALID METHODS OF
21 CALCULATING, BUT SINCE METHOD THREE IS BASED ON
22 WHAT THAT INDIVIDUAL, A WILLING BUYER, WILLING
23 SELLER, STEPPED UP TO THE PLATE, PUT THE MONEY DOWN
24 ON THE TABLE AND SAID, WE ARE WILLING TO PAY THIS
25 MUCH FOR THIS SMALL SEGMENT OF IT. I WOULD SAY THE
26 MOST VALID, IN TERMS OF MARKET VALUATION
27 METHODOLOGIES BETWEEN ALL OF THESE THREE WOULD BE
28 THE LAST ONE, AS A, MY OPINION, A FLOOR VALUE.
3615
1 Q. WHY DO YOU SAY A FLOOR VALUE?
2 A. I SAY A FLOOR VALUE BECAUSE, WHEN
3 YOU BUY A SMALL PORTION OF SOMETHING AND YOU ARE
4 WILLING TO SPEND THE MONEY TO GET A SMALL PORTION
5 OF SOMETHING, IS NOT AS VALUABLE AS WHEN YOU ARE
6 BUYING WHAT WE CALL A DOMINANT PORTION OF
7 SOMETHING.
8 AND IN MARKETING AND BRAND
9 ANALYSIS, A BRAND THAT HAS A SMALL SEGMENT OF THE
10 MARKET IS NOT AS VALUABLE, IS NOT AS DOMINANT AS A
11 BRAND THAT HAS A MAJOR SEGMENT OF THE MARKET, AS A
12 SERIES OF BRANDS THAT HAVE A MAJOR SEGMENT OF THE
13 MARKET.
14 MARLBORO IS ONE OF THE BRANDS OF
15 PHILIP MORRIS TOBACCO, NOT INCLUDING LARK, L&M AND
16 CHESTERFIELD, ARE DOMINANT IN THEIR SECTORS. AND
17 THEY ARE THE MAJOR BRANDS.
18 THE ANALOGY I LIKE TO USE TO FRAME
19 THIS ISSUE IS, IF I OWNED A BIG HOUSE ON A BIG HILL
20 IN BEVERLY HILLS, HAD NINE ACRES, MY HOUSE WAS THE
21 BIGGEST HOUSE UP THERE, AND THEN DOWN IN THE
22 VALLEY, RIGHT NEXT TO MY NINE ACRES, A ONE-ACRE
23 PLOT CAME UP FOR SALE, AND I WENT AND BOUGHT THAT
24 ONE ACRE PLOT AND I PAID A MILLION DOLLARS FOR IT.
25 BY PAYING A MILLION DOLLARS FOR THAT ONE ACRE PLOT
26 DOWN IN THE VALLEY, NO VIEW, WHAT AM I SAYING ABOUT
27 THE VALUE OF MY NINE ACRES?
28 AREN'T I SAYING THAT THE VALUE OF
3616
1 MY NINE ACRES IS AT LEAST NINE MILLION DOLLARS?
2 AND ACTUALLY, ISN'T IT MORE THAN
3 NINE MILLION DOLLARS?
4 BECAUSE I GOT THE BIG HOUSE ON THE
5 HILL, OVERLOOKING EVERYTHING.
6 THAT HAS A GREATER VALUE.
7 SO THAT'S WHY I SAY, WHEN YOU SPEND
8 300 MILLION DOLLARS TO BUY LESS THAN ONE PERCENT OF
9 THE MARKET, AND YOU HAVE THE DOMINANT BRANDS, THOSE
10 DOMINANT BRANDS ARE WORTH A LOT MORE ON A
11 PROPORTIONAL BASIS THAN THAT VERY SMALL SEGMENT OF
12 THE MARKET THAT YOU PURCHASED.

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13 SO IN TERMS OF VALUE, IN MY
14 OPINION, THE 75 MILLION DOLLARS WOULD BE MORE OF, I
15 USE THE TERM "FLOOR VALUE."
16 Q. ARE YOU FAMILIAR WITH THE CONCEPT
17 OR THE TERM "NET WORTH"?
18 A. YES.
19 Q. WHAT DOES THAT MEAN, NET WORTH?
20 A. BASICALLY, NET WORTH IS AN
21 ACCOUNTING DESIGNATION THAT SAYS IF YOU TAKE THE
22 REPORTED ASSETS, THE BOOK VALUE OF THE ASSETS AND
23 YOU TAKE THE LIABILITIES AND YOU SUBTRACT ALL THE
24 LIABILITIES FROM THE ASSETS, YOU WILL HAVE WHAT'S
25 CALLED THE NET WORTH. IN PUBLICLY TRADED
26 COMPANIES, IT IS SOMETIMES CALLED THE STOCKHOLDERS
27 EQUITY.
28 Q. OKAY. I AM GOING TO ASK YOU, I
3617
1 WILL DO IT RIGHT NOW, IS THERE A PUBLISHED FIGURE
2 FOR THE NET WORTH OF EITHER PHILIP MORRIS, INC.,
3 WHICH IS THE DOMESTIC TOBACCO COMPANY, OR PHILIP
4 MORRIS COMPANIES, INC., WHICH IS THE PARENT
5 UMBRELLA COMPANY?
6 A. THERE IS ONLY A FIGURE FOR PHILIP
7 MORRIS, COMPANIES, INC., IN OTHER WORDS, THE
8 PARENT, THE UMBRELLA.
9 THERE IS NO PUBLISHED FIGURE THAT I
10 HAVE BEEN ABLE TO FIND IN ANY OF THESE S.E.C.
11 DOCUMENTS, THE PUBLICLY AVAILABLE DOCUMENTS,
12 REGARDING PHILIP MORRIS, INC., DOMESTIC TOBACCO.
13 Q. WHAT ARE THE PUBLISHED FIGURES FOR
14 THE, LET ME GET THIS RIGHT NOW, NET WORTH OF THE
15 PARENT COMPANY?
16 A. AS OF THEIR FIRST QUARTER, IN OTHER
17 WORDS, MARCH 31 REPORTING, THAT WOULD BE 15
18 BILLION, 140 MILLION.
19 Q. SO WATCH THIS. IF WE TAKE THAT
20 NUMBER AND DO THE SAME MATH, PUTTING 28 PERCENT ON
21 15 BILLION, THAT'S GOING TO GIVE YOU A NET WORTH TO
22 THE DOMESTIC TOBACCO COMPANY OF LESS THAN 5 BILLION
23 DOLLARS; RIGHT?
24 A. JUST UNDER 5, THAT IS CORRECT.
25 Q. AND IF WE DO THIS, AND LOOK AT THE
26 INCOME, AND THE PARENT HAS A 15 BILLION DOLLAR NET
27 WORTH, THIS IS ALMOST RIGHT ON THE BUTTON, A THIRD,
28 5 BILLION DOLLAR NET WORTH FOR THE DOMESTIC TOBACCO
3618
1 COMPANY?
2 A. THAT WILL BE CORRECT, YES.
3 Q. THESE ARE WAY SMALLER NUMBERS THAN
4 WE HAVE BEEN TALKING ABOUT, OBVIOUSLY?
5 A. THAT IS CORRECT.
6 Q. SO YOU TOLD US WHAT NET WORTH IS.
7 LET'S TALK ABOUT IT SOME MORE. AND I ALSO WANT TO
8 KNOW WHAT NET WORTH ISN'T. ARE YOU READY?
9 A. SURE.
10 Q. IF NET WORTH IS ASSETS MINUS
11 LIABILITIES, WHAT GOES INTO THE ASSET COLUMN?
12 A. WHAT'S CALLED, TYPICALLY, IT'S
13 CALLED THE LOWER OF COST OR MARKET. LET ME EXPLAIN
14 THAT.
15 IN THE ASSET COLUMN YOU WOULD LINE
16 UP ALL OF THE ASSETS. FOR EXAMPLE, IF YOU GOT A
17 PLANT, IT WOULD BE THE PLANT THAT YOU HAVE, LESS

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18 THE DEPRECIATION.
19 IT WOULD BE ANY OF THE ACTIVE ITEMS
20 THAT YOU HAVE AS PART OF YOUR PRODUCTION FACILITY,
21 THE LAND, ALL OF THOSE ITEMS WOULD BE INCLUDED IN
22 THE ASSETS THAT ARE MEASURABLE.
23 AND THEY ARE USUALLY CALCULATED,
24 TYPICALLY, AT WHAT'S CALLED THE LOWER OF COST OF
25 MARKET.
26 Q. OKAY.
27 SO ASSETS, IF PHILIP MORRIS OWNS
28 SOMEPLACE, A FORD ECONOLINE VAN, IS THAT AN ASSET?
3619
1 A. YES, IT IS.
2 Q. AND IF PHILIP MORRIS, SOMEPLACE,
3 STILL HAS TO PAY OUT AN EXTRA $7,822.00 WHICH IS
4 LEFT ON THE PAYMENT SCHEDULE FOR THAT ECONOLINE
5 VAN, IS THAT A LIABILITY?
6 A. THAT IS A LIABILITY, THAT IS
7 CORRECT.
8 Q. IF PHILIP MORRIS OWNS SOME BIG OLD
9 FACTORY SOME PLACE THAT'S WORTH A LOT OF MONEY, IS
10 THAT AN ASSET?
11 A. YES, IT WOULD BE AN ASSET.
12 Q. IF PHILIP MORRIS HAS A MORTGAGE ON
13 THAT BIG OLD FACTORY SOMEPLACE, AND HAS TO PAY OFF
14 THAT MORTGAGE, IS THAT A LIABILITY?
15 A. THE MORTGAGE IS THE LIABILITY, THAT
16 IS CORRECT.
17 Q. IF PHILIP MORRIS HAS A PENSION PLAN
18 SOMEPLACE AND THEY HAVE TO BE PAYING PENSIONS TO
19 THE PEOPLE, THAT WOULD BE FOR THE CORPORATION, IS
20 THAT A LIABILITY?
21 A. THAT IS ALSO A LIABILITY.
22 Q. IF PHILIP MORRIS OWNS SOME TOBACCO
23 FIELD SOMEPLACE OR SOME OTHER PROPERTY THAT'S
24 SOMEWHERE, IS THAT AN ASSET?
25 A. THAT IS AN ASSET.
26 Q. OKAY, SO THESE ARE PRETTY
27 STRAIGHTFORWARD THINGS TO UNDERSTAND?
28 A. THAT IS CORRECT.
3620
1 Q. LET ME ASK YOU THIS: HAVE YOU EVER
2 HEARD OF MARLBORO?
3 A. SURE.
4 Q. HAVE YOU EVER HEARD OF COCA-COLA?
5 A. YES, I HAVE.
6 Q. IS THERE SOMEPLACE IN THE PHILIP
7 MORRIS BALANCE SHEET, THE ASSETS AND THE
8 LIABILITIES, WHERE THEY LEAD UP TO THE NET WORTH
9 WHERE SOMEONE SAYS, THE NAME MARLBORO, LET'S FORGET
10 THE FACTORY AND THE ECONOLINE AND THE TOBACCO
11 FIELDS, THE NAME MARLBORO IS WORTH "X."
12 A. NO.
13 Q. SO IF WE LOOK AT THE NET WORTH, AND
14 THIS IS THE POINT I AM TRYING TO MAKE, IF WE LOOK
15 AT THE NET WORTH OF THE COMPANY THAT'S PUBLISHED IN
16 THOSE DOCUMENTS SOMEPLACE, AND WE ARE THINKING
17 ABOUT FACTORIES AND MACHINES AND CARS AND TRUCKS
18 AND PENSION PLANS AND EVERYTHING ELSE, THAT ARE
19 EASY TO GRASP, SO FAR WE HAVEN'T TAKEN INTO ACCOUNT
20 THE VALUE OF THE NAME MARLBORO, IS THAT TRUE?
21 A. THAT'S CORRECT, WE DON'T HAVE
22 WHATEVER THE CURRENT MARKET VALUE IS.

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23 Q. FROM YOUR POINT OF VIEW, I AM NOT
24 LOOKING FOR ANY KIND OF A NUMBER NOW, JUST
25 CONCEPTUALLY, FROM YOUR POINT OF VIEW, IS OWNING
26 THE NAME MARLBORO WORTH A COUPLE BUCKS?
27 A. DEFINITELY.
28 Q. WHAT WERE THE NAMES OF THOSE THREE
3621
1 BRANDS THAT PHILIP MORRIS PAID 300 MILLION DOLLARS
2 FOR?
3 A. L&M, CHESTERFIELDS AND LARK.
4 Q. I HAVE A COUPLE OTHER AREAS I WANT
5 TO TOUCH ON.
6 BREAKING DOWN, I AM ONLY INTERESTED
7 IN THE TOBACCO, U.S.A. TOBACCO, CAN YOU TELL US PER
8 DAY, WHAT THE SALES ARE, DOLLAR-WISE?
9 A. 62 MILLION DOLLARS A DAY.
10 Q. IN THE UNITED STATES?
11 A. THE UNITED STATES, U.S. PHILIP
12 MORRIS TOBACCO ONLY.
13 Q. CAN YOU TELL US WHAT THE PROFITS
14 ARE PER DAY? AND I AM INTERESTED ONLY IN THE
15 DOMESTIC TOBACCO.
16 A. AROUND 30.
17 Q. 30 WHAT?
18 A. AROUND 12 TO 15 BILLION -- 12 TO 15
19 MILLION PER DAY.
20 Q. DO YOU HAVE A CALCULATOR UP THERE,
21 BY ANY CHANCE?
22 A. NO, I HAVE IT IN MY BRIEFCASE.
23 Q. I HAVE BEEN WANTING TO CARRY YOUR
24 BRIEFCASE.
25 SO I GUESS IT IS 365 INTO 5.35
26 BILLION.
27 A. 14.7 MILLION PER DAY.
28 Q. PROFIT?
3622
1 A. OPERATING INCOME, YES, SIR.
2 Q. SO I AM ALMOST DONE, BUT LET ME
3 JUST GET THESE TWO NUMBERS AGAIN.
4 THE DAILY SALES IN THE UNITED
5 STATES OF PHILIP MORRIS TOBACCO IS WHAT?
6 A. 62 MILLION DOLLARS.
7 Q. AND THE DAILY PROFITS IN THE UNITED
8 STATES OF PHILIP MORRIS TOBACCO IS WHAT?
9 A. 14.7 MILLION DOLLARS.
10 Q. SO I HAD STARTED OFF EXPLAINING TO
11 YOU, AND THEREFORE, THE JURY, THAT I WAS INTERESTED
12 IN THE FINANCIAL CONDITION OF PHILIP MORRIS, INC.,
13 WHICH IS THE U.S. TOBACCO COMPANY, LET ME FINISH
14 WITH THIS.
15 IS THE FINANCIAL CONDITION OF
16 PHILIP MORRIS, INC., GOOD?
17 A. FROM THE FINANCIAL DATA THAT I HAVE
18 BEEN ABLE TO LOOK AT, YES, IT IS VERY GOOD.
19 MR. PIUZE: NO FURTHER QUESTIONS.
20 THE COURT: WOULD YOU LIKE TO TAKE A
21 BREAK AT THIS POINT?
22 MR. CARLTON: I THINK THAT'S PROBABLY A
23 GOOD POINT.
24 THE COURT: LADIES AND GENTLEMEN, WE WILL
25 TAKE OUR MORNING BREAK. IF YOU WOULD PLEASE BE
26 BACK HERE AT 25 TILL 11:00, DON'T DISCUSS THE CASE
27 WITH ANYONE.

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28 SIR, YOU MAY STEP DOWN.
3623
1 (THE FOLLOWING PROCEEDINGS
2 WERE HELD IN OPEN COURT OUT
3 OF THE PRESENCE OF THE JURY:)
4
5 THE COURT: OKAY, MR. MORRIS, WE HAVE
6 GOTTEN APPROVAL TO CHANGE YOUR DATE TO JUNE 8TH.
7 PROSPECTIVE JUROR: OKAY.
8 THE COURT: ALL RIGHT. AND WHAT WE ARE
9 GOING TO DO IS GIVE YOU -- AND WHAT WE ARE GOING TO
10 GIVE YOU IS A LITTLE PINK SHEET WITH THE TELEPHONE
11 NUMBER TO CALL. YOU NEED TO ACTUALLY PERSONALLY GO
12 MAKE THAT CALL AND JUST SAY THAT YOU WOULD LIKE TO
13 CHANGE THE DATE, AND BY ASKING, THEY WILL DO IT FOR
14 YOU. AND IF THEY DON'T DO IT FOR YOU, WOULD YOU
15 PLEASE LET ME KNOW.
16
17 (AT THIS TIME, A RECESS
18 WAS TAKEN.)
19
20 (THE FOLLOWING PROCEEDINGS
21 WERE HELD IN OPEN COURT IN
22 THE PRESENCE OF THE JURY.)
23
24 THE COURT: OUR JURY PANEL IS WITH US.
25 WE ARE BACK ON THE RECORD.
26 MR. CARLTON, I BELIEVE.
27 MR. CARLTON: THANK YOU, YOUR HONOR.
28 /// /// ///
3624
1 CROSS-EXAMINATION
2
3 BY MR. CARLTON:
4 Q. GOOD MORNING, MR. JOHNSON.
5 A. GOOD MORNING.
6 Q. JUST START OFF, I THINK WE CAN
7 AGREE THAT PHILIP MORRIS, INC., IS A PROFITABLE
8 COMPANY; RIGHT?
9 A. THAT'S EVERY INDICATION, YES.
10 Q. AND IT IS PROBABLY WORTH BILLIONS
11 OF DOLLARS?
12 A. YES.
13 Q. OKAY. WHAT I'D LIKE TO DO IS JUST
14 TALK A LITTLE BIT MORE ABOUT THE SPECIFIC
15 VALUATIONS, THE WAY YOU GOT TO THE SPECIFIC
16 VALUATIONS YOU TOLD US ABOUT THIS MORNING. ALL
17 RIGHT.
18 A. SURE.
19 Q. WHEN WERE YOU FIRST CONTACTED BY
20 MR. PIUZE IN THIS CASE?
21 A. OH, THAT WOULD HAVE BEEN BACK IN
22 THE END OF LAST YEAR, BEGINNING OF THIS YEAR.
23 Q. AND THIS IS WHAT YOU DO FOR A
24 LIVING, WORK UP NUMBERS LIKE THIS AND TESTIFYING IN
25 COURT?
26 A. I DON'T HAVE A LOT OF PUNITIVE
27 DAMAGES CASES. BUT IF YOU ARE ASKING ME DO I DO
28 ECONOMIC TESTIMONY FOR MATTERS OF LITIGATION, YES,
3625
1 THAT'S ALL WE DO.
2 Q. AND THE FIRST THING YOU DID FOR MR.
3 PIUZE WAS TO WORK UP AN EVALUATION OF PHILIP MORRIS

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4 COMPANIES, INC.; RIGHT?
5 A. THAT WAS THE FIRST PART, CORRECT.
6 Q. AND THEN YOU GAVE A DEPOSITION IN
7 THIS CASE, DIDN'T YOU?
8 A. CORRECT.
9 Q. THAT WAS IN MARCH?
10 A. CORRECT.
11 Q. MIDDLE OF MARCH?
12 A. CORRECT.
13 Q. AND AT THAT POINT, YOU HAD DONE
14 THIS NET WORTH EVALUATION OF PHILIP MORRIS
15 COMPANIES, ISN'T THAT RIGHT?
16 A. I HAD DONE A NET WORTH EVALUATION
17 OF PHILIP MORRIS COMPANIES AND I WAS AWAITING
18 INFORMATION REGARDING PHILIP MORRIS, INC.
19 Q. SO THE FIRST THING YOU DID WAS TO
20 DO A NET WORTH ANALYSIS?
21 A. THAT WAS ONE OF THE ITEMS THAT WE
22 LOOKED AT. WE DID AN ANALYSIS. DID WE LOOK AT NET
23 WORTH? YES. THAT WAS ONE OF THE ITEMS WE LOOKED
24 AT.
25 Q. BUT YOU HADN'T DONE ANY OF THE
26 OTHER METHODS OF ANALYSIS THAT YOU TALKED ABOUT
27 TODAY, AT THAT TIME IN MARCH?
28 A. THAT IS CORRECT.
3626
1 Q. AND YOU CAME UP, AND I THINK YOU
2 TOLD US TODAY, WITH A NET WORTH OF PHILIP MORRIS
3 COMPANIES OF ABOUT 15 BILLION DOLLARS?
4 A. CORRECT.
5 Q. AND YOU THINK, AT THAT TIME, YOU
6 WERE RELYING ON YOUR 2000 FIGURE SO IT WAS A LITTLE
7 LESS THAN THE 15 BILLION, 140 MILLION YOU TOLD US
8 TODAY?
9 A. ABOUT 135 MILLION.
10 Q. SO THAT WAS THE NET WORTH OF PHILIP
11 MORRIS COMPANIES?
12 A. CORRECT.
13 Q. NOW, PHILIP MORRIS COMPANIES OWNS A
14 NUMBER OF SUBSIDIARIES, DOESN'T IT?
15 A. CORRECT.
16 Q. THAT WOULD INCLUDE PHILIP MORRIS,
17 INC., THAT'S ONE OF THEM; RIGHT?
18 A. CORRECT.
19 Q. AND THE OTHER SUBSIDIARIES IT OWNS
20 WOULD INCLUDE KRAFT FOODS; RIGHT?
21 A. SURE.
22 Q. THE NATIONAL TOBACCO BUSINESS?
23 A. CORRECT.
24 Q. THERE'S A FINANCIAL SERVICES
25 SUBSIDIARY; RIGHT?
26 A. CORRECT.
27 Q. MILLER BEER?
28 A. CORRECT.
3627
1 Q. AND ALL OF THOSE SUBSIDIARIES ARE
2 THE ASSETS OF PHILIP MORRIS COMPANIES?
3 A. CORRECT.
4 Q. AND THE VALUE OF THOSE ASSETS LESS
5 THE LIABILITIES OF -- LESS THE LIABILITIES, CAME
6 OUT TO ABOUT 15 BILLION DOLLARS?
7 A. BOOK VALUE, LESS LIABILITIES, THAT
8 IS CORRECT.

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9 Q. AND THAT'S WHAT YOU TESTIFIED TO AT
10 YOUR DEPOSITION IN MARCH; CORRECT?
11 A. CORRECT.
12 Q. NOW, RECENTLY, YOU WERE RECONTACTED
13 BY MR. PIUZE AND ASKED TO DO SOME MORE EVALUATION;
14 RIGHT?
15 A. CORRECT.
16 Q. AND YOU DID THAT EVALUATION OR
17 COMPLETED IT AT LEAST JUST WITHIN THE LAST FEW
18 DAYS, DIDN'T YOU?
19 A. CORRECT.
20 Q. SO THE NUMBERS YOU TOLD US ABOUT
21 TODAY YOU FINALIZED WHEN?
22 A. 23RD, MONDAY.
23 Q. MONDAY OF THIS WEEK?
24 A. CORRECT.
25 Q. IN RESPONSE TO A CALL FROM MR.
26 PIUZE?
27 A. CORRECT.
28 Q. AND THEN YOU GAVE A SECOND
3628
1 DEPOSITION YESTERDAY TO TALK ABOUT THESE NUMBERS?
2 A. SURE.
3 Q. AND NOW, BASED UPON THE NUMBERS YOU
4 TOLD US TODAY THEN, PHILIP MORRIS, INC., A
5 SUBSIDIARY OF PHILIP MORRIS COMPANIES, WITH A
6 NET -- PHILIP MORRIS COMPANIES HAS A NET WORTH OF
7 15 BILLION, PHILIP MORRIS, INC., MAY HAVE A VALUE
8 OF BETWEEN 30 AND 75 BILLION?
9 A. THOSE ARE THE NUMBERS I PRESENTED,
10 CORRECT.
11 Q. LET'S TALK ABOUT THOSE NUMBERS JUST
12 A BIT.
13 YOU, YOU WENT THROUGH THREE
14 DIFFERENT METHODS OF COMING AT A VALUATION FOR
15 PHILIP MORRIS, INC.; RIGHT?
16 A. THAT IS RIGHT.
17 Q. AND THE FIRST TWO OF THEM YOU USED
18 SOME PERCENTAGE OF THE TOTAL MARKET CAPITALIZATION
19 OF PHILIP MORRIS COMPANIES?
20 A. THAT IS CORRECT.
21 Q. LET'S TALK ABOUT MARKET
22 CAPITALIZATION A BIT.
23 MARKET CAPITALIZATION IS THE TOTAL
24 VALUE OF ALL OF THE OUTSTANDING STOCK OF A COMPANY;
25 RIGHT?
26 A. CORRECT. BASICALLY, IT'S THE SHARE
27 PRICE PER SHARE BY THE OUTSTANDING STOCK.
28 Q. AND WHAT WERE YOU LOOKING AT WAS
3629
1 THE TOTAL VALUE OF THE OUTSTANDING STOCK OF PHILIP
2 MORRIS COMPANIES?
3 A. WHAT I WAS LOOKING AT WAS THE --
4 Q. TO START WITH?
5 A. WHAT I WAS LOOKING AT WAS THE
6 PRODUCTS, SHARE PRICE TIMES NUMBER OF SHARES
7 OUTSTANDING. THAT'S ALL. THAT'S MARKET CAPITAL.
8 Q. THAT WAS THE 105 BILLION DOLLAR
9 NUMBER; RIGHT?
10 A. THAT IS CORRECT.
11 Q. NOW, THAT 105 BILLION DOLLARS
12 ISN'T -- DOESN'T EQUATE WITH MONEY IN THE POCKET OF
13 PHILIP MORRIS COMPANIES, DOES IT?

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14 A. NO. THEY CAN BE TWO DIFFERENT
15 THINGS.
16 Q. THEY CAN BE TWO DIFFERENT THINGS?
17 A. SURE.
18 Q. AND A PUBLICLY TRADED COMPANY,
19 A COMPANY WILL SELL A SHARE OF STOCK AND IT GETS
20 THE MONEY FROM THE PROCEEDS; RIGHT?
21 A. CORRECT.
22 Q. THE VALUE OF THAT SHARE OF STOCK
23 CAN GO UP AND DOWN?
24 A. AND IT DOES.
25 Q. AND IT DOES. WE HAVE SEEN THAT IN
26 THE DOT COM WORLD. BUT THAT DOESN'T RESULT IN A
27 CHECK BEING PAID TO THE COMPANY THAT ISSUED THE
28 STOCK, OR A DEBIT TO ITS ACCOUNT IF IT GOES DOWN?
3630
1 A. NOT UNLESS THEY HAVE ISSUED THE
2 STOCK FOR THE FIRST TIME.
3 Q. RIGHT.
4 AFTER IT SOLD THE FIRST TIME, IT'S
5 NOT MONEY IN THE BANK FOR THEM?
6 A. CORRECT.
7 Q. WHAT YOU HAVE TALKED ABOUT THEN, IN
8 TERMS OF THE PERCENTAGE OF REVENUES METHOD OR THE
9 PERCENTAGE OF INCOME METHOD REALLY HAS TO DO,
10 DOESN'T HAVE ANYTHING TO DO WITH THE AMOUNT OF
11 MONEY IN THE BANK THAT PHILIP MORRIS, INC., MIGHT
12 HAVE?
13 A. LET ME MAKE SURE I UNDERSTAND. YOU
14 ARE ASKING ME DOES THE VALUE OF THE COMPANY -- DOES
15 THE MARKET CAPITALIZATION VALUE OF THE COMPANY HAVE
16 ANYTHING TO DO WITH THE AMOUNT OF CASH THEY HAVE IN
17 THE BANK?
18 Q. RIGHT.
19 A. NO.
20 Q. DOESN'T.
21 DOESN'T HAVE ANY DIRECT CONNECTION
22 TO THE ASSETS OF THE COMPANY, EITHER, DOES IT?
23 A. I WOULD SAY, INDIRECTLY, IT DOES,
24 BECAUSE THE MARKET CAPITALIZATION WOULD REFLECT THE
25 ASSETS OF THE COMPANY, IN OTHER WORDS, THAT WOULD
26 BE EMBEDDED IN THE PRICE. IN OTHER WORDS, WHEN
27 PEOPLE GO TO VALUE THE COMPANY AND THE SHARE PRICE,
28 THEY WOULD LOOK AT THE ASSETS AS ONE OF THE
3631
1 ELEMENTS THAT GO INTO MAKING THAT DOLLAR SHARE
2 PRICE.
3 Q. WELL, LET'S TALK ABOUT THAT JUST A
4 BIT.
5 WHAT YOU HAVE TOLD US ABOUT IS THE
6 MARKET CAPITALIZATION OF PHILIP MORRIS COMPANIES
7 AND NOT OF PHILIP MORRIS, INC.; RIGHT?
8 A. I HAVE TOLD YOU THAT THERE IS A
9 MARKET CAPITALIZATION SPECIFIC FOR PHILIP MORRIS
10 COMPANIES. AND I SAID, IN ORDER TO FRAME A VALUE
11 FOR PHILIP MORRIS, INC., YOU CAN LOOK AT IT FROM A
12 PERSPECTIVE OF A PERCENTAGE OF SALES.
13 BUT I HAVE NOT SAID THAT THIS IS
14 THE MARKET CAPITAL FOR PHILIP MORRIS.
15 Q. THAT IS RIGHT. THAT IS RIGHT.
16 BECAUSE THERE IS NO PUBLICLY TRADED
17 MARKET OF PHILIP MORRIS, INC., SHARES?
18 A. CORRECT.

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19 Q. OKAY. SO WHEN YOU LOOK AT THE
20 MARKET CAPITALIZATION OF PHILIP MORRIS COMPANIES,
21 YOU ARE LOOKING AT WHAT THE MARKET HAS VALUED THE
22 WHOLE BUNDLE OF COMPANIES THAT PHILIP MORRIS
23 COMPANIES OWNS; RIGHT?
24 A. CORRECT.
25 Q. THEY HAVE GIVEN A CERTAIN VALUE,
26 YOU SAY 105 BILLION DOLLARS, TO THAT BUNDLE, KRAFT,
27 MILLER FOODS, INTERNATIONAL TOBACCO, FINANCIAL
28 SERVICES AND DOMESTIC TOBACCO?
3632
1 A. THAT IS CORRECT.
2 Q. BUT THAT DOESN'T MEAN THAT THE
3 MARKET HAS VALUED DOMESTIC TOBACCO OR ANY ONE OF
4 THOSE COMPANIES IN PROPORTION TO ITS GROSS
5 REVENUES, DOES IT?
6 A. WE DON'T KNOW.
7 Q. WE DON'T KNOW?
8 A. WE DON'T KNOW. THAT'S WHY WE LOOK
9 AT A NUMBER OF DIFFERENT WAYS OF MAKING THE
10 CALCULATION. THERE'S NO ONE EXACT NUMBER THAT SAYS
11 THAT FOR THIS SEGMENT -- THAT'S WHY WE LOOK AT IT
12 FROM A NUMBER OF DIFFERENT PERSPECTIVES.
13 Q. SO THAT IT'S POSSIBLE, I AM NOT
14 SAYING THIS IS THE CASE, I AM JUST SAYING IT IS
15 POSSIBLE, THAT THE FOOD-RELATED ENTITIES, WITHIN
16 THE UMBRELLA OF PHILIP MORRIS COMPANIES, COULD BE
17 THE DOMINANT VALUE THAT THE MARKET PLACES ON PHILIP
18 MORRIS COMPANY'S STOCK?
19 A. COULD IT BE?
20 Q. YES.
21 A. THEORETICALLY, ANYTHING IS
22 THEORETICALLY POSSIBLE.
23 Q. IT'S POSSIBLE.
24 NOW, THE VALUE THAT THE MARKET
25 PLACES ON A COMPANY'S STOCK IS NOT JUST AFFECTED BY
26 THE ASSET OF THAT COMPANY, IS IT?
27 A. CORRECT.
28 Q. MIGHT BE AFFECTED BY THE
3633
1 LIABILITIES OF THE COMPANY; RIGHT?
2 A. CORRECT.
3 Q. MIGHT BE AFFECTED BY THINGS CALLED
4 CONTINGENT LIABILITIES; RIGHT?
5 A. CORRECT.
6 Q. THINGS THAT MIGHT HAPPEN IN THE
7 FUTURE THAT HAVEN'T YET HAPPENED?
8 A. CORRECT.
9 Q. AND THE MARKET TRIES TO TAKE THAT
10 INTO ACCOUNT AND FIGURE IT INTO WHAT THEY ARE GOING
11 TO PAY FOR THE STOCK OF THAT COMPANY?
12 A. CORRECT.
13 Q. CONTINGENT LIABILITIES MIGHT
14 INCLUDE THE RISK OF LITIGATION, SUCH AS THIS;
15 RIGHT?
16 A. SURE.
17 Q. AND DO YOU HAVE ANY IDEA HOW THE
18 MARKET WOULD FACTOR THAT IN TO THE VALUE OF PHILIP
19 MORRIS, INC., BY ITSELF?
20 A. IF YOU ARE ASKING ME HOW EXACTLY
21 DID THEY FACTOR ANY OF THE CONTINGENCIES MENTIONED,
22 AND THERE IS A SECTION IN THE BALANCE SHEET THAT
23 TALKS ABOUT CONTINGENCIES FOR PHILIP MORRIS,

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24 THERE'S NO NUMBER THERE. THERE'S JUST A SECTION.
25 BUT IF YOU ARE ASKING ME HOW THE
26 MARKET WOULD ACTUALLY GO ABOUT MAKING THE SPECIFIC
27 ADJUSTMENT, I DON'T KNOW.
28 I DO KNOW THEY ARE AWARE OF ALL OF
3634
1 THE CONTINGENCIES AS SET FORTH BY PHILIP MORRIS IN
2 THEIR FINANCIAL STATEMENTS AND THEY ARE MAKING
3 WHATEVER ADJUSTMENT THEY DEEM APPROPRIATE BASED ON
4 THEIR INTERPRETATION OF ALL OF THAT PUBLICLY
5 AVAILABLE INFORMATION.
6 Q. FOR THE WHOLE UMBRELLA ENTITY?
7 A. CONTINGENCIES, ALL THE
8 CONTINGENCIES, IN ALL ASPECTS OF PHILIP MORRIS
9 COMPANIES, ALL OF THE DIFFERENT COMPANIES, NOT JUST
10 TOBACCO BUT ALL OF THEM.
11 Q. HAVE YOU DONE ANY RESEARCH INTO HOW
12 THE MARKET MIGHT EVALUATE PHILIP MORRIS, INC.,
13 IF IT WERE TRADED SEPARATELY?
14 A. NO.
15 Q. YOU DO KNOW THAT THAT ISSUE HAS
16 BEEN A TOPIC OF ANALYSIS IN THE INVESTMENT PRESS,
17 DON'T YOU?
18 A. I HAVEN'T REALLY LOOKED AT WHAT THE
19 INVESTMENT PRESS ARE SAYING. NO, I HAVEN'T -- I
20 MEAN, THEY TALKED ABOUT, WHEN I WAS AN ANALYST IN
21 THE '80'S, THEY TALKED ABOUT WHAT WOULD HAPPEN IF
22 THE COMPANIES GOT SPLIT APART. IN OTHER WORDS, THE
23 TOBACCO SEGMENTS GOT SPLIT APART BECAUSE NABISCO
24 USED TO BE OWNED BY ANOTHER COMPANY.
25 BUT THIS IS SOMETHING THAT'S BEEN
26 GOING ON FOR A LONG TIME, SO IT IS NOTHING NEW. SO
27 IF YOU ARE -- THEY ARE TALKING ABOUT IT AGAIN,
28 OKAY.
3635
1 Q. YOU PAY ATTENTION TO STOCK PRICES,
2 YOU PAY ATTENTION TO INVESTMENT ANALYSTS IN THE
3 COURSE OF YOUR BUSINESS?
4 A. NO. NO, I DON'T. STOCK PRICES FOR
5 THIS CASE, YES.
6 DO I PAY ATTENTION TO INVESTMENT
7 ANALYSTS, NO, NOT REALLY. I DO MY OWN INVESTING
8 FOR MYSELF.
9 IF I AM ASKED TO COME IN AND
10 EVALUATE THE ACQUISITION PRICE OR DO A SPECIFIC
11 EVALUATION, THEN I WILL GO OUT AND LOOK AT WHAT
12 SOME INVESTMENT ADVISORS MAY BE SAYING.
13 BUT HAVING BEEN AN INVESTMENT
14 ADVISER MYSELF, I UNDERSTAND THE FINANCIAL
15 PRESSURES THAT THEY ARE UNDER AND I UNDERSTAND
16 SPECIFICALLY WHAT THEIR ROLE IS.
17 Q. DO YOU GET "FORBES" MAGAZINE?
18 A. SURE.
19 Q. FEBRUARY 19TH OF THIS YEAR, DID YOU
20 HAPPEN TO GET IT?
21 A. PROBABLY, YEAH. SUBSCRIPTION COMES
22 IN REGULARLY.
23 Q. WOULD IT SURPRISE YOU TO HEAR THAT
24 "FORBES" MAGAZINE SAID:
25 "THE UPCOMING SALE OF SHARES
26 IN ITS FOOD BUSINESS, ONCE THE NABISCO
27 ACQUISITION OF COMBINED WITH PHILIP
28 MORRIS'S KRAFT WILL PROVE THAT THE

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3636
1 TOBACCO OPERATIONS ARE VALUED NEAR
2 ZERO."
3 DOES THAT SURPRISE YOU?
4 A. WHAT?
5 Q. THAT THE TOBACCO OPERATIONS ON A
6 MARKET BASIS ARE VALUED NEAR ZERO?
7 A. NO, NO, NO.
8 WHAT YOU GOT THERE IS ONE PERSON'S
9 OPINION AS TO WHAT THEY THINK THAT VALUATION WOULD
10 BE.
11 WHETHER IT'S THE MARKET'S OPINION,
12 I HAVEN'T SEEN IT, ON THAT BASIS.
13 AND YOU WILL HAVE TO WAIT AND SEE
14 WHETHER OR NOT "FORBES," THERE'S NO FINANCIAL
15 ANALYST THAT'S 100 PERCENT CORRECT.
16 SO THAT'S THAT PERSON'S OPINION.
17 Q. MIGHT BE RIGHT, MIGHT BE WRONG?
18 A. WHO KNOWS.
19 Q. SO WHEN YOU SAY, IN EVALUATING THE
20 PROPORTION OF THE TOTAL MARKET CAPITALIZATION OF
21 PHILIP MORRIS COMPANIES THAT SHOULD BE ATTRIBUTED
22 TO PHILIP MORRIS, INC., YOU ARE SAYING IT SHOULD BE
23 28 PERCENT OR 33 PERCENT; RIGHT?
24 A. I AM SAYING, IF YOU USE THAT TOOL,
25 THAT WAY OF MEASURING A VALUE ON AN ITEM THAT'S NOT
26 PUBLICLY TRADED, LOOKING AT IT FROM A PERCENTAGE OF
27 SALES IS A REASONABLE WAY. LOOKING AT IT FROM A
28 PERCENTAGE OF OPERATING INCOME IS A REASONABLE WAY.
3637
1 IF YOU LOOK AT IT FROM THESE
2 PERSPECTIVES, THESE ARE THE NUMBERS.
3 Q. AND OTHER THAN --
4 A. THAT'S ALL.
5 Q. AND OTHER REASONABLE PEOPLE, TAKING
6 INTO ACCOUNT CONTINGENT LIABILITIES, CAN CONCLUDE
7 IT'S REALLY CLOSE TO ZERO?
8 A. WELL, COUNSEL, I JUST WANT TO MAKE
9 SURE THAT YOU UNDERSTAND THAT WHEN WE DID MARKET
10 CAPITALIZATION, MARKET CAPITALIZATION DOES TAKE
11 INTO EFFECT CONTINGENT LIABILITIES.
12 SO BOTH OF US TOOK INTO EFFECT
13 CONTINGENT LIABILITIES.
14 WE JUST DID IT DIFFERENTLY.
15 Q. LET'S LOOK AT METHOD 3. I WANT TO
16 TALK BRIEFLY ABOUT THAT.
17 THAT WAS THE THIRD METHOD YOU
18 TALKED ABOUT HAD TO DO WITH THE PURCHASE PRICE OF
19 THESE THREE BRANDS OF CIGARETTES, L&M, LARK AND
20 CHESTERFIELD?
21 A. SURE.
22 Q. 300 MILLION DOLLARS?
23 A. SURE.
24 Q. AND ONE OF THE THINGS YOU -- YOU
25 GAVE AN EXAMPLE.
26 YOU SAID, IT WAS SORT OF LIKE A
27 HOUSE ON A HILL; RIGHT?
28 A. CORRECT.
3638
1 Q. A BIG HOUSE ON A HILL, NINE ACRE
2 HOUSE WITH A LOT OF LITTLE HOUSES DOWN BELOW?
3 A. I DIDN'T SAY THEY WERE LITTLE
4 HOUSE, JUST LOTS --

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5 Q. ONE ACRE LOTS?
6 A. BEVERLY HILLS, LET'S NOT FORGET
7 THAT.
8 Q. ONE ACRE LOTS?
9 A. YES.
10 Q. AND YOUR EVALUATION WAS, WELL, GEE,
11 IF ONE ACRE SELLS FOR A CERTAIN PRICE, NINE ACRES
12 SHOULD SELL FOR NINE TIMES THAT PRICE?
13 A. NO, THAT'S NOT WHAT I SAID.
14 Q. ALL RIGHT. WHAT DID YOU SAY?
15 A. I SAID IF I PAID, NOT SELLS FOR, IF
16 I PAID A MILLION DOLLARS FOR THAT ONE ACRE DOWN
17 BELOW, WHAT DOES THAT SAY ABOUT THE INTRINSIC, HOW
18 I VALUE THE REST OF THE PROPERTY THAT I HAVE.
19 IF ONE ACRE WAS WORTH ONE MILLION,
20 AND I HAVE GOT NINE ACRES, THAT WOULD PUT A FLOOR
21 VALUE ON MY NINE ACRES OF AT LEAST ONE TIMES NINE.
22 THAT MAY NOT BE THE WHOLE VALUE. AND IN MY
23 OPINION, IT WOULD NOT BE THE WHOLE VALUE.
24 BUT THAT'S NOT WHAT SOMEBODY ELSE
25 WOULD PAY, THAT'S HOW I VALUE IT. THAT WAS THE
26 ANALOGY.
27 Q. WELL, LET ME SEE HERE.
28 YOU HAVE TAKEN, CORRECT ME IF I AM
3639
1 WRONG, MAYBE I GOT IT WRONG, LET ME KNOW.
2 THE THREE BRANDS WERE PURCHASED FOR
3 300 MILLION DOLLARS.
4 A. CORRECT.
5 Q. AND THEY ACCOUNTED FOR 0.2 PERCENT
6 OF MARKET SHARE?
7 A. ZERO -- LET ME MAKE SURE I GOT THE
8 LANGUAGE CORRECT.
9 I THINK THEY USED THE TERMINOLOGY,
10 "DOMESTIC MARKET SHIPMENT," YES.
11 Q. OKAY. AND THEN YOU EXTRAPOLATE
12 FROM THAT 0.2 PERCENT AT 300 MILLION DOLLARS TO A
13 TOTAL MARKET OF 150 BILLION; IS THAT RIGHT?
14 A. CORRECT.
15 Q. AND THEN YOU SAID BECAUSE PHILIP
16 MORRIS BRANDS HAVE ABOUT HALF OF THAT, THEIR VALUE
17 WOULD BE ABOUT 75 BILLION?
18 A. CORRECT. THERE'S A BALLPARK WAY OF
19 LOOKING AT IT, THAT IS CORRECT, SIR.
20 Q. NOW, THAT ANALYSIS ONLY WORKS IF
21 THE 300 MILLION DOLLARS PAID FOR THE THREE BRANDS
22 WAS EXACTLY EQUIVALENT TO THE VALUE OF 0.2 PERCENT
23 OF MARKET SHARE; RIGHT?
24 A. WHO'S VALUE? I AM CONFUSING WHEN
25 YOU ARE SAYING TO THE VALUE OF THAT PERCENTAGE OF
26 MARKET SHARE.
27 THE VALUE MARKER THAT I HAVE USED,
28 HOW I HAVE MEASURED THE VALUE IS WHAT PHILIP MORRIS
3640
1 PAID. SOMEBODY ELSE MAY HAVE PAID A DIFFERENT
2 AMOUNT. I AM JUST DOING IT ON THE BASIS OF HOW
3 MANY DOLLARS PHILIP MORRIS PUT ON THE TABLE TO TAKE
4 IN THOSE BRANDS.
5 Q. THE VALUE OF THOSE THREE BRANDS TO
6 PHILIP MORRIS MIGHT BE DIFFERENT THAN THEIR
7 PERCENTAGE OF THE TOTAL MARKET, ISN'T THAT TRUE?
8 A. VALUE -- I AM CONFUSED. I KEEP
9 COMING BACK TO VALUE TO WHO?

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10 PHILIP MORRIS PAID A CERTAIN AMOUNT
11 FOR -- THEY MAY HAVE -- SOMEBODY ELSE MAY HAVE PAID
12 A DIFFERENT AMOUNT. ALL I AM LOOKING AT IS WHAT
13 PHILIP MORRIS PAID.
14 Q. WELL, BUT YOU TOOK THAT NUMBER AND
15 CALCULATED THE VALUE OF THE ENTIRE CIGARETTE
16 MARKET, ISN'T THAT RIGHT?
17 A. FROM THE PHILIP MORRIS PERSPECTIVE,
18 USING THE SAME LOGIC THAT THEY SAID THIS BRAND WITH
19 THIS AMOUNT OF DOMESTIC PRODUCTION, WE ARE WILLING
20 TO SPEND 300 MILLION DOLLARS TO PURCHASE THAT. IF
21 THAT'S WORTH 300 MILLION DOLLARS, WHAT IS THE WHOLE
22 WORTH?
23 Q. SO ARE YOU TELLING US THAT THE
24 VALUE OF THE ENTIRE CIGARETTE MARKET DEPENDS ON
25 WHAT PHILIP MORRIS THINKS IT IS WORTH?
26 A. NO. I AM NOT TELLING YOU WHAT THE
27 ENTIRE PHILIP MORRIS -- THE VALUE OF THE ENTIRE
28 MARKET IS IN TERMS OF WHAT EVERYBODY AGREES IS.
3641
1 WHAT I AM SAYING IS PHILIP MORRIS
2 STEPPED UP TO THE PLATE AND SAID, WE ARE GOING TO
3 SPEND 300 MILLION DOLLARS TO BUY TWO-TENTHS OF A
4 PERCENT. THIS IS JUST PHILIP MORRIS. THIS ISN'T
5 RJ REYNOLDS. THIS ISN'T ANYBODY ELSE. THIS IS
6 PHILIP MORRIS.
7 THEY STEPPED UP AND THEY SAID
8 TWO-TENTHS OF A PERCENT IS WORTH TO US 300 MILLION
9 DOLLARS. I DON'T KNOW WHAT IT IS WORTH TO ANYBODY
10 ELSE. I AM NOT HERE TO TALK ABOUT ANYBODY ELSE. I
11 AM TALKING ABOUT HOW PHILIP MORRIS VALUED THAT
12 BRAND, THAT SEGMENT, THAT PERCENTAGE OF VOLUME
13 BECAUSE THAT'S WHAT THEY GOT.
14 Q. DID YOU DO ANY RESEARCH TO FIGURE
15 OUT EXACTLY WHAT THE TOTAL MARKET FOR CIGARETTES IN
16 THIS COMPANY IS?
17 A. WHEN YOU SAY "THE MARKET," ARE YOU
18 TALKING UNIT VOLUME OR ARE YOU TALKING -- HOW ARE
19 YOU MEASURING, SIR?
20 Q. WHAT DOES YOUR 150 BILLION DOLLAR
21 FIGURE REPRESENT?
22 A. THE 150 BILLION DOLLAR FIGURE
23 REPRESENTS THE VALUE OF THE ENTIRE U.S. DOMESTIC
24 MARKET AS BASED ON WHAT PHILIP MORRIS PAID FOR
25 TWO-TENTHS OF A PERCENT OF THAT MARKET. THAT'S
26 ALL. THAT'S THE TOTAL DOLLAR VALUE.
27 AGAIN, GO BACK TO MY ANALOGY OF THE
28 HOUSE. IF ONE ACRE IS WORTH A MILLION AND I GOT
3642
1 NINE OF THEM, MY NINE IS WORTH AT LEAST NINE
2 MILLION.
3 Q. LET'S LOOK AT IT THIS WAY, ASSUME
4 YOU HAVE NINE ACRES, AND THEY ARE A BUNCH OF
5 SMALLER PARCELS DOWN AT THE BASE OF THE HILL.
6 A. SURE.
7 Q. AND EACH OF THOSE PARCELS SELLS FOR
8 A MILLION DOLLARS.
9 A. OKAY.
10 Q. NOW, ONE OF THOSE PARCELS, THOUGH,
11 IS ADJACENT TO YOUR NINE ACRES.
12 A. OKAY.
13 Q. AND THERE'S A GAP IN YOUR NINE
14 ACRES THAT YOU DON'T LIKE.

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15 A. OKAY.
16 Q. AND THAT HOUSE, THAT PIECE OF
17 PROPERTY COMES ON THE MARKET, YOU WANT TO BUY IT?
18 A. SURE.
19 Q. YOU WANT TO BUY IT TO FILL IN THE
20 GAP?
21 A. RIGHT.
22 Q. BUT -- AND YOU WILL PAY TWO MILLION
23 DOLLARS FOR THAT JUST TO FILL IN THE GAP.
24 A. OKAY.
25 Q. THAT DOESN'T MEAN THAT
26 AUTOMATICALLY THE VALUE OF ALL OF THE OTHER
27 PROPERTIES THAT DON'T FILL IN THAT GAP FOR YOU GOES
28 UP TO TWO MILLION DOLLARS, DOES IT?
3643
1 A. NO. IT DOESN'T MEAN THAT ALL OF
2 THE OTHER PROPERTIES THAT GO IN THERE TO FILL THE
3 GAP WOULD BE TWO MILLION DOLLARS. I AM JUST
4 TALKING ABOUT MY SHARE, MY PROPORTION OF THAT GAP.
5 AND SO IF I PLACE A SPECIFIC VALUE ON THAT, AT THAT
6 SAME LEVEL, WHICH IS WHY WHEN I GET DOWN TO MY
7 NUMBERS FOR PHILIP MORRIS, I SAY, THE PROPORTION OF
8 THE VALUE OF THE PHILIP MORRIS, INC., THE DOMESTIC,
9 IS MORE THAN IF YOU JUST STRAIGHT-LINED THE
10 NUMBERS, WHICH IS WHAT I DID.
11 I TOOK THE 300 MILLION, MULTIPLIED
12 IT, GOT THE 150 BILLION, TOOK HALF OF THAT. I
13 STILL SAY THE VALUE OF MY SHARE IS WORTH MORE THAN
14 JUST A STRAIGHT LINE EXTRAPOLATION.
15 Q. NOW, WHAT YOU HAVE DONE IS YOU HAVE
16 TAKEN THE 300 MILLION DOLLAR PURCHASE OF THE THREE
17 CIGARETTE BRANDS, WHICH ARE THE EQUIVALENT, SAY, OF
18 THE ONE PARCEL OF PROPERTY -- WELL, LET ME STOP
19 THAT.
20 IT'S QUITE POSSIBLE THAT PHILIP
21 MORRIS SIMPLY PAID A PREMIUM FOR THOSE THREE BRANDS
22 THAT DOESN'T REFLECT THE VALUE OF THE TOTAL
23 CIGARETTE MARKET, ISN'T THAT RIGHT?
24 A. DEPENDING UPON HOW YOU WANT TO
25 VALUE THE CIGARETTE MARKET, SURE.
26 Q. JUST LIKE IF SOMEBODY BUYS A PARCEL
27 FOR TWO MILLION DOLLARS, THAT'S NOT GOING TO CHANGE
28 THE VALUE OF ALL THE OTHER UNSOLD PARCELS AROUND
3644
1 IT, THOSE HOUSES WILL HAVE A CERTAIN VALUE OF A
2 MILLION DOLLARS APIECE AND JUST BECAUSE SOMEBODY
3 PAYS TWO MILLION DOLLARS FOR THIS ONE, THAT DOESN'T
4 CHANGE THE VALUE OF ALL THOSE; RIGHT?
5 A. NOT THE WAY I HAVE SEEN THE REAL
6 ESTATE MARKET GO. YOU GET THE COMPARABLES -- YOUR
7 NEIGHBOR'S HOUSE SELLS FOR TWO MILLION, IT EFFECTS
8 EVERYBODY ELSE'S GOAL FOR A MILLION. IT DOES HAVE
9 AN EFFECT.
10 Q. WELL, THE HYPOTHETICAL IS THAT --
11 A. WELL, YOUR HYPOTHETICAL --
12 Q. THIS ONE IS UNIQUE, FILLS A GAP.
13 A. SURE.
14 Q. AND WHAT I AM GETTING TO IS THAT
15 YOU WERE WORKING UP TO A VALUE FOR THE ENTIRE
16 CIGARETTE MARKET AND THEN CUTTING THAT IN HALF FOR
17 PHILIP MORRIS'S VALUE; RIGHT?
18 A. I WAS WORKING UP TO A PHILIP MORRIS
19 VALUE, NOT ANYBODY ELSE'S. I WAS WORKING UP TO A

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20 PHILIP MORRIS VALUE OF THE MARKET AND THEN
21 DETERMINING FROM THAT WHAT SHARE. THE OTHER WAY,
22 MATHEMATICALLY, YOU CAN DO IT THE OTHER WAY, YOU
23 CAN TAKE THE TWO-TENTHS OF ONE PERCENT THAT PHILIP
24 MORRIS PAID FOR 300 MILLION, YOU CAN TAKE THEIR
25 MARKET SHARE OF 49.9 SOME ODD PERCENT AND YOU CAN
26 WORK THE MATH AND YOU WILL GET THE 75 MILLION
27 DOLLARS JUST THE SAME, BYPASSING ANY CALCULATION OF
28 THE WHOLE MARKET.
3645
1 SO I COULD HAVE DONE IT THAT WAY
2 AND GET THE SAME NUMBER. SO DIDN'T HAVE TO VALUE
3 THE WHOLE MARKET. ALL I HAD TO VALUE WAS PHILIP
4 MORRIS' SHARE. TAKE 300, TWO-TENTHS OF A PERCENT,
5 APPLY IT TO THE 49 PERCENT OF THE MARKET THAT
6 PHILIP MORRIS HAS, AND YOU WILL GET YOURSELF 5
7 MILLION. THAT'S JUST STRAIGHT MATH.
8 I CHOSE TO DO IT THE OTHER WAY
9 BECAUSE I THOUGHT IT WOULD BE MUCH MORE EASILY
10 UNDERSTANDABLE IN TERMS OF PERCENTAGE OF SHARES,
11 MARKET SHARES. BUT I DON'T HAVE TO DO THE WHOLE
12 MARKET TO GET THE EXACT SAME NUMBER.
13 Q. ANOTHER WAY TO DO IT WOULD BE TO
14 FIND THE TOTAL VALUE OF CIGARETTES SHIPPED IN THE
15 UNITED STATES AND THEN CUT THAT BY THE PROPORTION
16 THAT PHILIP MORRIS CONTROLS; RIGHT?
17 A. YOU COULD DO IT ON THE BASIS OF
18 DOMESTIC SHIPMENT.
19 Q. BUT YOU DIDN'T DO THAT?
20 A. NO, I -- WELL -- THE NUMBERS THAT
21 WE USED WERE, I THINK, DOMESTIC SHIPMENT MARKET
22 SHARE NUMBERS.
23 THE SHIPMENT MARKET SHARE NUMBERS
24 ARE ABOUT 49 PERCENT. IN OTHER WORDS, MARKET SHARE
25 BASED ON SHIPMENTS, NOT ON REVENUE, JUST ON
26 SHIPMENTS OF THE UNITS.
27 MR. CARLTON: NOTHING FURTHER. THANK
28 YOU, YOUR HONOR.
3646
1 MR. PIUZE: JUST LET ME TOUCH ON A COUPLE
2 POINTS THAT WERE MADE.
3
4 REDIRECT EXAMINATION
5
6 BY MR. PIUZE:
7 Q. DOT COM WAS MENTIONED IN THIS
8 CROSS-EXAMINATION?
9 A. YES.
10 Q. IS THERE ANY WAY YOU ARE EVER GOING
11 TO MISTAKE PHILIP MORRIS FOR A DOT COM COMPANY?
12 A. NO.
13 Q. CONTINGENT LIABILITIES FOR LAWSUITS
14 WERE MENTIONED IN CROSS-EXAMINATION. BEFORE I GO
15 FURTHER, I JUST WANT TO CAUTION YOU, I DON'T WANT
16 TO TALK ABOUT ANY PARTICULAR CASE, ANY PARTICULAR
17 SETTLEMENT, ANY PARTICULAR VERDICT, ANY PARTICULAR
18 ANYTHING; OKAY?
19 A. CORRECT.
20 Q. WE HAD SEVERAL WITNESSES THAT HAVE
21 BEEN HERE TESTIFYING ON OTHER ISSUES IN THE CASE
22 AND THEY TOLD THE JURY ON CROSS-EXAMINATION THAT
23 THEY TESTIFIED IN OTHER TOBACCO CASES AGAINST
24 EITHER PHILIP MORRIS OR THE INDUSTRY, ONE OR BOTH,

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25 SO I DON'T WANT TO TALK ABOUT SPECIFIC, BUT WE KNOW
26 THAT THERE ARE, THERE'S LITIGATION OUT THERE.
27 NOW, AS FAR AS CONTINGENT
28 LIABILITIES, AS FAR AS LAWSUITS ARE CONCERNED, I'D
3647
1 LIKE TO DISCUSS TWO ISSUES WITH YOU.
2 NUMBER 1, I WILL BET YOU HAVE HEARD
3 OF THE TERM "PRESENT CASH VALUE"?
4 A. YES, I HAVE.
5 Q. IF I WERE A TOBACCO -- I AM THE
6 TOBACCO INDUSTRY, NOT A COMPANY, I WON'T
7 PERSONALIZE THIS, I AM THE INDUSTRY; OKAY?
8 A. OKAY.
9 Q. AND I, AS THE INDUSTRY, DECIDE TO
10 SETTLE SOME VEXATIOUS, PAIN IN THE BUTT, TERRIBLE
11 CLAIM AGAINST ME FOR TEN BUCKS.
12 A. OKAY.
13 Q. IN FACT, LET'S MAKE IT $20. AND I
14 AM USING A DUMB FIGURE SO NO ONE WILL MISTAKE IT
15 WITH REALITY. OKAY?
16 A. UNDERSTOOD.
17 Q. SO I AM THE TOBACCO INDUSTRY AND I
18 AM SETTLING CLAIMS AGAINST ME FOR $20 AND I PROMISE
19 I AM GOING TO PAY THE 20 BUCKS OVER A PERIOD OF 25
20 YEARS. OKAY?
21 A. OKAY.
22 Q. THAT'S THE DEAL I CUT.
23 WHAT'S THAT WORTH, IN PRESENT CASH
24 VALUE?
25 A. SETTLE AT THE END OF 25 YEARS,
26 ABOUT 6 BUCKS, IF THAT.
27 Q. OKAY.
28 A. AT 5 PERCENT INTEREST, PASSBOOK
3648
1 SAVINGS.
2 Q. SO I, AS THE TOBACCO INDUSTRY AM
3 SAYING, GEE WHIZ, I HAD TO SPEND 20 BUCKS ON THIS
4 SETTLEMENT BECAUSE IT IS SPREAD OVER A PERIOD OF
5 TIME, IT'S -- WHAT DID YOU SAY?
6 A. 5, 6 BUCKS.
7 Q. SECOND ISSUE. UNDER THIS
8 CONTINGENT LIABILITY FOR LAWSUITS, LET'S SAY, FOR
9 THE SAKE OF ARGUMENT, THAT I AM THE TOBACCO
10 INDUSTRY AND I SETTLED, MADE THIS $20 SETTLEMENT A
11 COUPLE YEARS AGO, YOU WANT TO ASSUME THAT, PLEASE.
12 A. SURE.
13 Q. IN FACT, LET'S SAY, FOR THE SAKE OF
14 ARGUMENT, THAT I MADE THIS $20 SETTLEMENT IN 1998.
15 OKAY?
16 A. SURE.
17 Q. IF I AM THE TOBACCO INDUSTRY AND I
18 MADE THIS SETTLEMENT, THIS $20 SETTLEMENT IN 1998,
19 HAS THE CONTINGENT LIABILITY FOR LAWSUITS REALLY
20 HAMMERED PHILIP MORRIS'S PROFITS?
21 A. FOR THE TOBACCO COMPANY, THEIR
22 REVENUES AND OPERATING INCOME HAVE INCREASED OVER
23 THAT IDENTICAL PERIOD OF TIME AND THEY HAVE
24 ATTRIBUTED THE SIGNIFICANT PORTION OF THE INCREASES
25 TO THOSE SETTLEMENTS.
26 Q. WELL, YOU MADE A POINT THERE THAT I
27 DIDN'T. THANK YOU.
28 I AM ONLY INTERESTED IN TOBACCO. I
3649

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1 AM NOT INTERESTED IN KRAFT, NABISCO, MILLER,
2 ANYTHING, NOTHING, TOBACCO, TOBACCO, U.S.A. ONLY.
3 A. ONLY, THAT'S ALL I HAVE BEEN
4 SPEAKING ABOUT.
5 Q. SO AS FAR AS CONTINGENT LIABILITY
6 FROM LAWSUITS ARE CONCERNED, IF I AM THE TOBACCO
7 INDUSTRY AND I PAID MY 20 BUCKS FOR SETTLEMENT A
8 COUPLE YEARS AGO, I GUESS THE CONTINGENT
9 LIABILITIES FOR THAT LITIGATION HASN'T REALLY
10 ADVERSELY AFFECTED PHILIP MORRIS THUS FAR?
11 A. NO ADVERSE, JUST POSITIVE, IN TERMS
12 OF OPERATING REVENUE AND OPERATING INCOME, BOTH
13 HAVE GONE UP.
14 Q. AND THANKS. THANKS.
15 I DIDN'T -- CAN I SEE THAT "FORBES"
16 THING FOR A SECOND BECAUSE I HAVEN'T SEEN THAT.
17 WHILE I AM WAITING FOR THIS, I WANT
18 TO TALK ABOUT FILL-IN-THE-GAPS FOR A SECOND. OKAY?
19 A. SURE.
20 Q. I GUESS, WHERE DO YOU WANT TO GO,
21 BEVERLY HILLS? IS THAT WHERE YOU WANT TO GO?
22 A. THAT SAME LOCALE.
23 Q. MY GUESS, IF YOU ARE IN BEVERLY
24 HILLS AND YOU ON THE NINE ACRES AT THE TOP, BUT
25 YOUR DRIVEWAY COMES OUT OVER IN SOME LESSER
26 NEIGHBORHOOD LIKE BRENTWOOD OR BEL AIR, SOMEPLACE
27 LIKE THAT, MIGHT EFFECT YOUR PROPERTY VALUES, AND
28 IF YOU COULD BUILD A NEW DRIVEWAY THAT CAME OUT
3650
1 RIGHT TO THE BOTTOM OF RODEO DRIVE, IT MIGHT BE
2 BETTER FOR YOUR PROPERTY VALUES.
3 ARE YOU WITH ME SO FAR?
4 A. I AM WITH YOU.
5 Q. AND SO BECAUSE YOU WANT YOUR
6 DRIVEWAY TO GO STRAIGHT DOWN TO GUCCI'S ON RODEO
7 DRIVE THERE, FILLING IN THE GAP MEANS YOU WOULD PAY
8 EXTRA. WOULD YOU ACKNOWLEDGE THAT?
9 A. SURE, YOU COULD.
10 Q. NOW, LET'S TALK PHILIP MORRIS
11 THOUGH.
12 WITHOUT L&M, AND WITHOUT LARK, AND
13 WITHOUT CHESTERFIELD, PHILIP MORRIS HAD 49 PLUS
14 PERCENT OF ALL DOMESTIC CIGARETTE SALES IN THE
15 UNITED STATES?
16 A. YEP.
17 Q. WHERE'S THE GAP?
18 A. I HAVE NO IDEA. AS TO -- I MEAN, I
19 DON'T SEE A SIGNIFICANT GAP.
20 IS THERE TWO-TENTHS OF A PERCENT,
21 YES.
22 IT'S NOT A GAP IN TERMS OF MY
23 UNDERSTANDING OF STRATEGIC GAP IN TERMS OF LIKE A
24 ROADWAY BLOCKING A DRIVEWAY. IT'S FILLING IN
25 ANOTHER PORTION OF A SURROUNDING AREA. BUT I SEE
26 NO MAJOR GAP.
27 THEY HAVE 50 PERCENT OF THE MARKET.
28 IT'S NOT LIKE THEY PICKED UP A SIGNIFICANT 20 OR 25
3651
1 PERCENT. THEY PICKED UP AN ADDITIONAL LESS THAN A
2 HALF A PERCENT.
3 Q. WELL, THAT'S WHERE I AM GOING, THAT
4 TWO-TENTHS OF ONE PERCENT, DOES THAT GET PHILIP
5 MORRIS TO SOMEPLACE WHERE THEY GOT BONUS POINTS OR

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6 THEY GOT OVERTIME POINTS OR ONE-HALF OR ANYTHING
7 LIKE THAT?
8 A. I AM NOT AWARE. BUT I SAW NOTHING
9 IN THE PROXY OR THE S.E.C. DOCUMENTS THAT SAID
10 THERE WAS ANYTHING SIGNIFICANT OTHER THAN PART OF
11 THEIR REGULAR STRATEGY.
12 Q. SO FILLING IN THE GAP WORKS OVER AT
13 BEVERLY HILLS AND RODEO DRIVE, BUT DOES THAT
14 ANALOGY FIT FOR PHILIP MORRIS AT ALL, DO YOU THINK,
15 SIR?
16 A. NOT IN MY OPINION AT ALL.
17 Q. GIVE ME ONE SECOND TO LOOK AT THIS,
18 NOW.
19 MY BIGGEST DISAPPOINTMENT IS APPLE
20 COMPUTER, IT'S A TURKEY.
21 HAVE YOU EVER SEEN THIS, BY THE
22 WAY?
23 A. I HAVE NEVER SEEN THAT.
24 I NEVER HEARD OF THIS COMPANY,
25 SOSINOFF? OKAY.
26 Q. ONE WAY OR THE OTHER, SOME PERSON
27 IS GIVING A BUNCH OF STOCK TIPS IN THAT LITTLE
28 ARTICLE; RIGHT?
3652
1 A. THAT'S RIGHT. YEP.
2 Q. AND WHOEVER THIS PERSON IS, MADE A
3 COMMENT WHICH I ASSUME MR. CARLTON READ TO YOU
4 CORRECTLY?
5 A. EXCEPT THAT HE LEFT OFF THE LAST
6 TWO SENTENCES THAT SAY, "NEVERTHELESS, THE TOBACCO
7 ARM CONTINUES TO GAIN MARKET SHARE, RAISING
8 CIGARETTE PRICES WITHOUT CHALLENGE. I SEE PHILIP
9 MORRIS AT 15 TIMES EARNINGS."
10 WHICH IS IN THE UPPER PART OF THE
11 ARTICLE HE SAID, "IT WAS BEGINNING A STRONG ADVANCE
12 IN SALES AT 12 TIMES EARNINGS."
13 SO PHILIP MORRIS, I ASSUME HE IS
14 SAYING THIS IS AFTER THEY SELL NABISCO IS STILL
15 GOING TO GO UP.
16 Q. HERE'S WHERE I WANT TO END.
17 WHOEVER THAT PERSON IS WHO SAID THAT THE TOBACCO
18 PORTION OF PHILIP MORRIS MIGHT BE EQUAL TO ZERO,
19 THAT'S WHAT I WANT TO TALK ABOUT HERE, AND I AM
20 GOING TO DO IT JUST WITH THIS ONE CHART HERE.
21 OKAY.
22 THIS IS 10,006.
23 A. YES.
24 Q. AND AGAIN, I WANT TO MAKE A
25 RIDICULOUS EXAMPLE.
26 IF I OWNED A COMPANY THAT MADE
27 $16,000 ONE YEAR, PROFIT, AND -- AND I GUESS THIS
28 ISN'T A RIDICULOUS EXAMPLE. THIS IS A
3653
1 DOWN-TO-EARTH-EXAMPLE. IF I OWNED A COMPANY THAT
2 MADE $15,000 IN PROFIT ONE YEAR, AND THEN ITS
3 PROFITS WENT UP SO IT WAS ALMOST 50,000 INCOME THE
4 NEXT YEAR, AND THEN THE NEXT YEAR IT WENT UP SO IT
5 WAS $53,000, AND THESE ARE THE PROFITS FOR THREE
6 YEARS, THAT'S AN UP-SWING, OBVIOUSLY?
7 A. SIGNIFICANT.
8 Q. IS THAT BUSINESS WORTH ZERO?
9 A. I SEE NO INDICATION OF HOW YOU COME
10 TO THAT CONCLUSION.

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11 MR. PIUZE: NO FURTHER QUESTIONS.
12 THE COURT: SIR, YOU MAY STEP DOWN. YOU
13 ARE EXCUSED.
14 MR. PIUZE: YOUR HONOR, AT THIS TIME THE
15 PLAINTIFF IS GOING TO READ SOME TESTIMONY FROM THE
16 CHAIRMAN OF PHILIP MORRIS GIVEN IN ANOTHER CASE AND
17 THE CHAIRMAN OF PHILIP MORRIS HAS A PONY TAIL
18 TODAY.
19 THE COURT: ALL RIGHT, SIR. IF YOU WOULD
20 PLEASE STEP FORWARD.
21 JUST REMIND THE JURY OF THE, OF
22 THIS, WHEN COUNSEL SAYS "SWORN TESTIMONY," THE
23 WITNESS IN THIS CASE, THE CHAIRMAN OF PHILIP
24 MORRIS, COMPANIES -- IS THAT CORRECT, THIS IS THE
25 CHAIRMAN OF PHILIP MORRIS COMPANIES?
26 MR. PIUZE: YES, OF THE PARENT
27 ORGANIZATION.
28 THE COURT: ALL RIGHT.
3654
1 WAS PUT UNDER OATH, RAISED HIS
2 RIGHT HAND AND SWORE TO TELL THE TRUTH JUST AS ANY
3 OTHER WITNESS. AND THERE WAS AN OPPORTUNITY FOR
4 DIRECT EXAMINATION AND CROSS-EXAMINATION OF HIM AS
5 WELL.
6 BOTH SIDES HAVE SELECTED PORTIONS
7 OUT OF THIS DEPOSITION TRANSCRIPT AND IT WILL ALL
8 BE READ AT ONE TIME TO YOU.
9 MR. PIUZE: THANKS.
10 THE COURT: REMEMBER, AGAIN, IT IS NOT
11 THE CREDIBILITY OF THE PERSON WHO IS READING THAT
12 COUNTS, IT IS THE CREDIBILITY OF THE WORDS
13 UNDERNEATH THAT THAT YOU NEED TO LISTEN TO AND MAKE
14 YOUR OWN DECISION AS TO WHETHER OR NOT YOU BELIEVE
15 IT OR NOT.
16 THE CLERK: YOUR HONOR, WITH YOUR
17 PERMISSION, COULD I HAVE THE READER GIVE US THE
18 NAME OF THE GENTLEMAN AND ALSO SPELL HIS NAME FOR
19 US.
20 MR. GOLDSTEIN: YES, GEOFF, GEOFFREY
21 BIBLE, G-E-O-F-F-R-E-Y B-I-B-L-E.
22 THE CLERK: THANK YOU.
23 MR. PIUZE: IF I COULD, BEFORE I START
24 READING, IT'S NOT NEARLY AS LONG AS THE OTHERS.
25 SO THIS IS MARCH 2, 1998, IN
26 MINNESOTA.
27 "Q STATE YOUR FULL
28 NAME, PLEASE.
3655
1 "A JEFF BIBLE.
2 "Q GOOD MORNING, MR.
3 BIBLE.
4 "A GOOD MORNING, SIR.
5 "Q YOU AND I HAVE NOT
6 MET BEFORE?
7 "A NO, NOT TO MY
8 KNOWLEDGE.
9 "Q AND YOU ARE
10 PRESENTLY THE CHIEF EXECUTIVE OFFICER
11 OF PHILIP MORRIS, COMPANIES?
12 "A YES.
13 "Q HOW LONG HAVE YOU
14 BEEN THE CHIEF EXECUTIVE OFFICER, SIR?
15 "A SINCE JUNE 1994, SO

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16 THAT'S ABOUT 3 AND A HALF YEARS.
17 "Q HOW LONG HAVE YOU
18 BEEN WITH PHILIP MORRIS COMPANIES OR
19 IT'S PREDECESSORS?
20 "A A TOTAL OF 24 YEARS.
21 "Q HAVE YOU BEEN THERE
22 CONSECUTIVELY THROUGHOUT THE ENTIRE 24
23 YEAR PERIOD?
24 "A NO, I HAVE NOT.
25 "Q WHAT ELSE HAVE YOU
26 DONE DURING THE COURSE OF THOSE 24
27 YEARS
28 "A WELL, IN 1968 I
3656
1 JOINED PHILIP MORRIS AND THEN IN 1970,
2 I LEFT AND I WORKED WITH AN AUSTRALIAN
3 FINANCIAL SERVICES GROUP FOR SIX
4 YEARS. I REJOINED PHILIP MORRIS IN
5 1976 IN EUROPE.
6 "Q SO YOU WERE GONE FOR
7 SIX YEARS?
8 "A SIX YEARS."
9 MR. LE BERTHON: YOUR HONOR, MR. PIUZE IS
10 READING TEXT THAT IS DIFFERENT FROM WHAT HE HAD
11 RELAYED AND INDICATED HE WAS GOING TO READ TO THE
12 JURY.
13 MR. PIUZE: CAN I HAVE A SECOND TO CONFER
14 WITH MY WITNESS HERE.
15 THE COURT: A LITTLE MIX UP.
16 MR. PIUZE: YES, A LITTLE MISDIRECTION.
17 THE COURT: OKAY, FOLLOW ALONG COUNSEL
18 AND LET ME KNOW IF WE GET OFF THE TRACK AGAIN.
19 THANK YOU FOR POINTING THAT OUT.
20 MR. PIUZE: (READING)
21 "Q NOW, SIR, PHILIP
22 MORRIS COMPANIES HAS A NUMBER OF
23 VARIOUS OPERATING COMPANIES WITHIN;
24 CORRECT?
25 "A YES.
26 "Q IT HAS A TOBACCO
27 BUSINESS, OBVIOUSLY; CORRECT?
28 "A YES.
3657
1 "Q HAS A FOOD BUSINESS?
2 "A YES.
3 "Q HAS A BEER BUSINESS?
4 "A YES.
5 "Q AND IT HAS A
6 FINANCIAL SERVICES BUSINESS?
7 "A YES.
8 "Q CAN YOU DIRECT YOUR
9 ATTENTION, PLEASE, TO EXHIBIT 2,153,
10 WHICH IS IN BOOK 2 IN FRONT OF YOU.
11 THAT IS THE 1996 ANNUAL REPORT FOR
12 PHILIP MORRIS, COMPANIES,
13 INCORPORATED.
14 "A YES.
15 "Q AT THE END OF 1996,
16 PHILIP MORRIS COMPANIES HAD A NET -- "
17 EXCUSE ME, I APOLOGIZE.
18 "Q NOW, AT THE END OF
19 1996, PHILIP MORRIS COMPANIES, AND OF
20 THAT, THE DOMESTIC TOBACCO OPERATION

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21 IN THE UNITED STATES, WHICH IS CALLED
22 PHILIP MORRIS, U.S.A.; CORRECT?
23 "A YES.
24 "Q THAT DID
25 APPROXIMATELY 12 BILLION, 462 MILLION
26 DOLLARS; CORRECT?
27 "A CORRECT.
28 "Q AND IN THE UNITED
3658
1 STATES, ON THE 12 BILLION, YOU HAVE
2 OPERATING INCOME OF ABOUT 4.2 BILLION
3 DOLLARS; CORRECT?
4 "A YES.
5 "Q ABOUT ONE-THIRD OF
6 THE REVENUES; CORRECT?
7 "A YES, THAT WOULD BE
8 APPROXIMATE, UH-HUH.
9 "Q NOW, CAN YOU DIRECT
10 YOUR ATTENTION, SIR, TO WHAT IS PAGE
11 2, RIGHT AFTER THE FINANCIAL
12 HIGHLIGHTS, IT'S GOT YOUR PICTURE ON
13 IT.
14 "A YES.
15 "Q IN THE ANNUAL
16 REPORTS YOU GENERALLY HAVE A SHORT
17 LETTER TO THE SHAREHOLDERS; CORRECT?
18 "A YES.
19 "Q AND STARTING ON PAGE
20 2, IS THAT LETTER; CORRECT?
21 "A THAT IS CORRECT,
22 YES.
23 "Q AND YOU REPRESENT TO
24 THE SHAREHOLDERS THAT 1996 WAS ONE OF
25 THE BEST YEARS EVER AT PHILIP MORRIS;
26 CORRECT?
27 "A YES.
28 "Q AND YOU POINT OUT
3659
1 THAT THE REMARKABLE GROWTH HAD BEEN
2 DRIVEN BY THE COMPANY'S ABILITY TO
3 ACCOMPLISH ITS FIRST GOAL TO INCREASE
4 EARNINGS BY GROWING OUR BUSINESSES;
5 CORRECT?
6 "A CORRECT.
7 "Q THAT IS THE FIRST
8 GOAL OF PHILIP MORRIS COMPANIES;
9 CORRECT?
10 "A OUR FIRST BUSINESS
11 GOAL, THAT IS CORRECT.
12 "Q THAT IS YOUR FIRST
13 BUSINESS GOAL AT PHILIP MORRIS U.S.A.,
14 THE TOBACCO COMPANY; CORRECT?
15 "A THAT WOULD BE OUR
16 FIRST BUSINESS GOAL OF EACH OF OUR
17 BUSINESSES, SIR.
18 "Q AND YOU TALK HERE
19 ABOUT THE BRAND IMAGES AND THE BRAND
20 NAMES THAT YOU HAVE WITHIN THE FAMILY
21 OF PRODUCTS OF PHILIP MORRIS; CORRECT?
22 "A YES, FURTHER DOWN, I
23 DO. I TALK ABOUT 68 BRANDS, YES.
24 "Q AND THE ONE YOU
25 POINT OUT IS THE UNIVERSAL SYMBOL OF

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26 BUSINESS SUCCESS, THE MARLBORO
27 CIGARETTE; CORRECT?
28 "A WELL, I RECALL THAT.
3660
1 I DON'T QUITE SEE IT HERE BUT I DO
2 RECALL REFERRING TO THAT.
3 "Q IT'S IN THE SECOND
4 PARAGRAPH THERE, SIR. DO YOU SEE IT?
5 "A YES, I DO. SORRY.
6 "Q NOW, IN THIS YEAR,
7 SIR, 1996, YOU HAD SHIPPED MORE
8 CIGARETTES DOMESTICALLY THAN YOU EVER
9 HAD BEFORE IN THE HISTORY OF THE
10 COMPANY; CORRECT?
11 "A I THINK THAT'S
12 CORRECT, YES.
13 "Q AND LAST YEAR, 1997,
14 DID YOU SHIP MORE THAN YOU DID IN
15 1996?
16 "A I THINK WE DID.
17 "Q NOW, WAS ONE -- NOW,
18 WAS ONE OF THE RIGHTS OF YOUR
19 CONSUMERS TO HAVE A SAFE PRODUCT?
20 "A I THINK ONE OF
21 RIGHTS OF OUR CONSUMERS IS TO HAVE A
22 GOOD PRODUCT.
23 "Q THAT'S NOT WHAT I
24 ASKED, SIR.
25 "IS ONE OF THE RIGHTS OF
26 YOUR CONSUMERS TO HAVE A SAFE PRODUCT?
27 "A I WOULD SAY YES.
28 "Q AND THAT INCLUDES
3661
1 ALL YOUR PRODUCTS; CORRECT, SIR?
2 "A YES.
3 "Q ALL RIGHT. NOW,
4 SIR, AS THE C.E.O. OF PHILIP MORRIS
5 COMPANIES, YOU REPORT TO THE BOARD OF
6 DIRECTORS; CORRECT?
7 "A YES.
8 "Q THE BOARD OF
9 DIRECTORS IS THE ULTIMATE AUTHORITY IN
10 THE COMPANY; CORRECT?
11 "A YES.
12 "Q THEY HAVE POWER TO
13 MAKE DECISIONS; CORRECT?
14 "A YES.
15 "Q THEY HAVE THE POWER
16 TO HIRE YOU; CORRECT?
17 "A YES.
18 "Q THEY HAVE THE POWER
19 TO FIRE YOU; CORRECT?
20 "A YES.
21 "Q THEY SET THE OVERALL
22 MANAGEMENT OF THE COMPANY; CORRECT?
23 "A I AM NOT QUITE SURE
24 WHAT YOU MEAN BY THAT, WHEN YOU SAY
25 THE OVERALL MANAGEMENT.
26 "Q WELL, THEY SET THE
27 MANAGEMENT TEAM IN PLACE BY SELECTING
28 THE C.E.O., DO THEY NOT?
3662
1 "A YES, I -- I WOULD

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2 SELECT THE MANAGEMENT TEAM, THEY WOULD
3 SELECT ME.
4 "Q THEY SELECT YOU AND
5 YOU, IN TURN, SELECT PEOPLE WHO REPORT
6 TO YOU; CORRECT?
7 "A YES, THAT'S RIGHT.
8 "Q AND YOU HAVE THE
9 RESPONSIBILITY FOR THE DAY-TO-DAY
10 EXECUTIVE DECISIONS OF THE COMPANY;
11 CORRECT?
12 "A YES, I DO HAVE
13 REPORTING TO ME A CHIEF OPERATING
14 OFFICER TO WHOM THE OPERATING
15 COMPANIES, YOU MENTIONED EARLIER,
16 REPORT TO HIM. AND HE REPORTS TO ME.
17 "Q BUT ULTIMATELY, SIR,
18 AS HARRY TRUMAN USED TO SAY, THE BUCK
19 STOPS IN YOUR OFFICE; CORRECT?
20 "A THAT'S EXACTLY
21 RIGHT.
22 "Q ALL RIGHT. YOU HAVE
23 TO MAKE THE ULTIMATE DECISIONS OF THIS
24 COMPANY; CORRECT?
25 "A YES.
26 "Q AND THAT ALSO
27 PERTAINS TO EVERY ISSUE REGARDING
28 SMOKING AND HEALTH; CORRECT?
3663
1 "A I DON'T WANT TO
2 QUIBBLE ABOUT THAT EITHER, BUT I WOULD
3 SAY THAT PHILIP MORRIS U.S. TOBACCO
4 HAS ITS OWN MANAGEMENT. PHILIP
5 MORRIS, INTERNATIONAL TOBACCO HAS ITS
6 OWN MANAGEMENT. AND THEY RUN THOSE
7 BUSINESSES. AND ON ISSUES OF SMOKING
8 AND HEALTH, THEY WOULD FORMULATE THEIR
9 OWN PRACTICE AND POLICIES. I WOULDN'T
10 BE AWARE OF THEM. IF I DISAGREED WITH
11 THEM, I WOULD CERTAINLY LET THEM KNOW
12 AND I WOULD URGE THEM TO BE CHANGED.
13 "Q YOU HAVE THE POWER
14 TO CHANGE THEM, DO YOU NOT?
15 "A YES, I DO.
16 "Q YOU HAVE THE POWER
17 TO MAKE A DECISION THAT PHILIP
18 MORRIS -- EXCUSE ME -- YOU HAVE THE
19 POWER TO MAKE A DECISION WHAT PHILIP
20 MORRIS WILL SAY REGARDING SMOKING AND
21 HEALTH, DON'T YOU?
22 "A YES.
23 "Q NOW, YOU UNDERSTAND
24 THAT PHILIP MORRIS HAS DUTIES TO ITS
25 CUSTOMERS; CORRECT?
26 "A YES.
27 "Q IT HAS DUTIES UNDER
28 THE LAW; CORRECT?
3664
1 "A YES.
2 "Q IT HAS A DUTY TO THE
3 PUBLIC HEALTH; CORRECT?
4 "A YES.
5 "Q IT HAS A DUTY TO ITS
6 SHAREHOLDERS; CORRECT?

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7 "A YES.
8 "Q HAS DUTIES TO ITS
9 EMPLOYEES, FAIR?
10 "A YES.
11 "Q NOW, IT ALSO HAS A
12 DUTY TO MAKE MONEY; CORRECT?
13 "A YES.
14 "Q BUT YOU CAN'T SET
15 MONEY ABOVE PUBLIC HEALTH, CAN YOU?
16 "A NO, I DON'T THINK
17 I'D SET MONEY ABOVE PUBLIC HEALTH. I
18 WOULD SAY THAT, IN THAT RESPECT, THE
19 DUTIES THAT YOU OUTLINED, I TAKE THEM
20 ALL AS VERY SERIOUS RESPONSIBILITIES.
21 I DON'T KNOW THAT I WOULD RAISE ONE
22 ABOVE THE OTHER. I THINK THEY ARE ALL
23 VERY SERIOUS RESPONSIBILITIES.
24 "Q THE FIRST AND
25 FOREMOST DUTY IS TO THE HEALTH OF YOUR
26 CUSTOMERS, IS IT NOT, SIR?
27 "A I WOULD SAY ONE OF
28 THE -- AS I JUST SAID, I THINK ONE OF
3665
1 THE MOST IMPORTANT RESPONSIBILITIES I
2 HAVE.
3 "Q IS IT THE MOST
4 IMPORTANT RESPONSIBILITY?
5 "A NO. I'D SAY IT IS
6 ONE OF THE MOST IMPORTANT
7 RESPONSIBILITIES I HAVE. AS YOU
8 OUTLINED, I HAVE RESPONSIBILITIES TO
9 MY EMPLOYEES, TO MY STOCKHOLDERS, TO
10 MY CUSTOMERS, TO THE COMMUNITY,
11 GENERALLY.
12 "Q ARE YOU SAYING THAT
13 THE DUTY TO MAKE MONEY IS EQUAL TO THE
14 DUTY OF THE HEALTH OF YOUR CUSTOMERS?
15 "A I WOULD SAY THAT ALL
16 ARE EQUALLY IMPORTANT IN THE CONDUCT
17 OF MY JOB THAT I PLACE THEM ALL AT THE
18 HIGHEST RANKING.
19 "Q SO THAT YOU WOULD
20 PLACE THE DUTY TO MAKE MONEY EQUAL TO
21 THE DUTY TO THE PUBLIC HEALTH, IS THAT
22 WHAT YOU ARE SAYING?
23 "A I -- I WOULD SAY --
24 I WOULDN'T QUITE PUT IT THAT WAY. I
25 WOULD SAY THAT MY DUTY TO RETURN
26 REASONABLE RETURN TO MY STOCKHOLDERS'
27 INVESTMENT IN OUR COMPANY IS AS
28 IMPORTANT AS MY DUTY TO MY CONSUMERS
3666
1 AND TO MY CUSTOMERS AND TO MY
2 SUPPLIERS AND TO MY EMPLOYEES.
3 "Q SO THAT THE DUTY TO
4 RETURN A REASONABLE INVESTMENT TO YOUR
5 SHAREHOLDERS IS EQUAL TO YOUR DUTY TO
6 THE PUBLIC HEALTH?
7 "A THAT'S HOW I SEE MY
8 JOB. I THINK THEY ARE ALL VERY
9 IMPORTANT ASPECTS OF MY JOB.
10 "Q NOW, SIR, IF YOUR
11 PRODUCT KILLED 100,000 PEOPLE A YEAR,

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12 WOULD YOU STILL CONSIDER YOUR DUTY TO
13 THE INVESTORS TO BE EQUAL TO A PRODUCT
14 THAT KILLED 100,000 PEOPLE A YEAR?
15 "I JUST WANT YOU TO ASSUME
16 THAT.
17 "A WELL, IT'S AN
18 ASSUMPTION THAT I REALLY DON'T FEEL I
19 WANT TO MAKE BECAUSE I DON'T BELIEVE
20 THAT MY PRODUCT DOES DO THAT.
21 "Q WE WILL GET INTO
22 THAT.
23 "I WANT YOU TO ASSUME THAT
24 IT DOES KILL 100,000 PEOPLE A YEAR.
25 WOULD YOUR DUTY TO THE SHAREHOLDERS
26 STILL BE EQUAL TO THE CUSTOMERS THAT
27 WERE BEING KILLED BY THE PRODUCT?
28 "A WELL, SIR, I EXPECT
3667
1 THAT YOU ARE REFERRING TO THE
2 SUGGESTION THAT CIGARETTES DO THAT.
3 AND I DON'T KNOW IF CIGARETTES DO
4 THAT. SO I FIND IT VERY HARD TO MAKE
5 THAT ASSUMPTION.
6 "Q THAT WASN'T MY
7 QUESTION.
8 "A UH-HUH.
9 "Q MY QUESTION IS MAKE
10 THE ASSUMPTION. AND IF THEY DID KILL
11 100,000 PEOPLE, WOULD YOUR DUTY TO THE
12 PUBLIC HEALTH STILL BE EQUAL TO YOUR
13 DUTY TO YOUR SHAREHOLDERS TO MAKE
14 MONEY?
15 "A I WOULD THINK, IF
16 THAT WERE THE CASE, I WOULD RECONSIDER
17 MY RESPONSIBILITIES. BUT, AGAIN, IT'S
18 AN ASSUMPTION THAT I DON'T FEEL I CAN
19 MAKE.
20 "Q OKAY. IF THEY DID
21 KILL, YOU WOULD REASSESS YOUR
22 EVALUATION OF YOUR DUTIES; IS THAT
23 CORRECT?
24 "A WELL, I WOULD
25 REASSESS MANY THINGS, I THINK, SIR.
26 "Q WOULD YOU REASSESS
27 THE EVALUATION OF YOUR DUTIES?
28 "A THAT WOULD BE ONE
3668
1 THING I WOULD DO.
2 "Q NOW, HOW MANY PEOPLE
3 WOULD IT HAVE TO KILL BEFORE YOU GOT
4 TO THE POINT WHERE YOU WOULD REASSESS
5 THOSE DUTIES? HOW MANY?
6 "A WELL, I -- I DON'T
7 FIND THAT A VERY FAIR QUESTION, SIR.
8 I CAN'T ASSUME SOMETHING OF THAT
9 NATURE WHEN IT'S NOT SOMETHING I
10 BELIEVE OCCURS.
11 "Q HOW MANY WOULD HAVE
12 TO DIE FROM SMOKING BEFORE YOU WOULD
13 REASSESS YOUR DUTIES? ONE? 100?
14 5,000? HOW MANY, SIR?
15 "A WELL, SIR, I DON'T
16 KNOW THAT ANYBODY DOES. SO I AM

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17 FINDING THAT A VERY HARD ASSUMPTION TO
18 MAKE.
19 "Q I DIDN'T ASK YOU
20 THAT YET. WE WILL GET TO THAT.
21 "A OKAY.
22 "Q HOW MANY WOULD HAVE
23 TO DIE FROM YOUR PRODUCTS BEFORE YOU
24 REASSESS YOUR DUTY?
25 "A I WOULD HAVE
26 THOUGHT, IF YOU ARE FORCING ME TO SAY
27 THAT SOMEBODY, I HAVE TO ASSUME
28 SOMEBODY DIED, IF ONE PERSON DIED, I
3669
1 WOULD REASSESS MY DUTIES.
2 "Q SO IF ONE PERSON
3 DIED FROM SMOKING, YOU WOULD REASSESS
4 YOUR DUTIES; IS THAT CORRECT?
5 "A I WOULD REASSESS MY
6 DUTIES. I WOULD LOOK AT ALL OF MY
7 DUTIES, YES.
8 "Q WOULD YOU SHUT DOWN
9 THE BUSINESS IF ONE PERSON DIED?
10 "A YES. WELL, THAT
11 QUESTION HAS ACTUALLY BEEN ASKED ME
12 BEFORE PUBLICLY IN A DEPOSITION AND I
13 HAD SAID AT THE TIME THAT PERHAPS I
14 WOULD BECAUSE I WOULD LIKE TO TALK
15 WITH THE GOVERNMENT ABOUT THE MATTER
16 BECAUSE OF THE WIDE IMPLICATIONS IT
17 WOULD HAVE. I SUBSEQUENTLY CONCLUDED
18 THAT PROBABLY THAT WOULDN'T BE A VERY
19 EFFECTIVE THING TO DO BECAUSE THERE'S
20 QUITE A LARGE SUPPLY OF CIGARETTES IN
21 THE SUPPLY LINE AND THAT WOULDN'T HAVE
22 ANY IMPACT, JUST CLOSING DOWN THE
23 PLANT, FOR A SHORT PERIOD OF TIME.
24 "I, FRANKLY, BELIEVE THAT
25 MOST PEOPLE IN AMERICA, PERHAPS IN THE
26 WORLD, EVEN, BELIEVE THAT CIGARETTES
27 ARE A RISKY PRODUCT. AND I BELIEVE
28 THAT MOST PEOPLE IN AMERICA, MOST
3670
1 SMOKERS, MOST PEOPLE, AND IN FACT,
2 MOST PEOPLE IN THE WORLD RECOGNIZE
3 THAT CIGARETTES ARE A RISK FACTOR, CAN
4 CAUSE DAMAGE. AND I DON'T KNOW IF IT
5 BECAME, IF PEOPLE BECAME AWARE, IF
6 THERE WERE SOME SCIENTIFIC PROOF THAT
7 CIGARETTES WERE TO KILL PEOPLE, THAT,
8 IN FACT, THE GOVERNMENT WOULD BAN THE
9 PRODUCT. I THINK ONE OF THE FIRST
10 THINGS I WOULD DO WOULD BE TO TALK TO
11 THE GOVERNMENT TO DETERMINE WHETHER
12 THEY, THE FEDERAL GOVERNMENT OR THE
13 STATE GOVERNMENTS TOGETHER WOULD LIKE
14 TO BAN THE PRODUCT. IF THEY DID, OF
15 COURSE, I'D SHUT THE PLANT.
16 "Q ARE YOU DONE? ARE
17 YOU DONE?
18 "A YES, I AM FINISHED.
19 "Q ALL RIGHT. WELL NOW
20 SEE IF YOU CAN ANSWER MY QUESTION.
21 "IF ONE PERSON DIED AS A

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22 RESULT OF YOUR PRODUCTS, WOULD YOU
23 SHUT THE BUSINESS DOWN?
24 "A NO. I JUST
25 EXPLAINED WHAT I WOULD DO.
26 "Q YOU WOULD NOT.
27 OKAY.
28 "NOW, YOU DID STATE UNDER
3671
1 OATH, IN AUGUST OF 1997 THAT YOU WOULD
2 SHUT THE BUSINESS DOWN, DIDN'T YOU?
3 "A YES. AND I JUST
4 EXPLAINED THAT I SUBSEQUENTLY
5 REFLECTED UPON THAT AND I FELT THAT
6 THAT WOULD NOT HAVE MUCH EFFECT.
7 "Q BECAUSE THERE WERE
8 CIGARETTES IN THE PIPELINE?
9 "A AND I CONCLUDED ALSO
10 THAT I THINK THAT THE MORE IMPORTANT
11 FEATURE WOULD BE TO THE GOVERNMENT TO
12 DETERMINE WHETHER THE PRODUCT SHOULD
13 REMAIN A LEGAL PRODUCT OR NOT.
14 "Q AND THE GOVERNMENT,
15 THROUGH THE SURGEON GENERAL, SINCE
16 1964, HAS SAID THAT SMOKING CAUSES
17 DISEASE, HASN'T IT?
18 "A I AM NOT SURE SINCE
19 WHEN, '64, I THINK IS RIGHT. YES.
20 "Q IT CAUSES ALL KINDS
21 OF DISEASES; CORRECT, THE GOVERNMENT
22 HAS SAID, ISN'T THAT RIGHT, SIR?
23 "A THE GOVERNMENT HAS
24 CLAIMED IT CAUSES CERTAIN DISEASES,
25 YES."
26 MR. PIUZE: EXCUSE ME. I APOLOGIZE.
27 "Q NOW, DO YOU BELIEVE
28 THAT PHILIP MORRIS HAS A DUTY TO
3672
1 MARKET A SAFE PRODUCT?
2 "A I THINK WE HAVE A
3 DUTY TO MARKET A PRODUCT. IF THERE
4 ARE RISK FACTORS ASSOCIATED WITH IT,
5 THAT THE PUBLIC SHOULD BE AWARE OF
6 THOSE RISK FACTORS.
7 "Q THAT'S NOT WHAT I
8 ASKED YOU.
9 "DOES IT HAVE A DUTY TO
10 MARKET A SAFE PRODUCT?
11 "A WELL, I THINK THEY
12 HAVE A DUTY TO MAKE AS SAFE A PRODUCT
13 AS THEY POSSIBLY CAN.
14 "Q AND DID PHILIP
15 MORRIS HAVE A DUTY TO MAKE AS SAFE A
16 PRODUCT AS IT POSSIBLY COULD SINCE
17 1954?
18 "A I WOULD SAY SO, YES.
19 "Q AND IF THEY DIDN'T
20 DO THAT, THEY WOULD HAVE BEEN
21 VIOLATING THAT DUTY; CORRECT, SIR?
22 "A IF THEY DID NOT DO
23 THAT, I THINK THAT'S PROBABLY ACCURATE
24 TO SAY.
25 "Q AND SO IF THEY
26 VIOLATED THAT DUTY TO THE PUBLIC, THEN

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27 THEY SHOULD BE HELD ACCOUNTABLE FOR
28 THAT VIOLATION OF THAT DUTY; CORRECT?
3673
1 "A COULD YOU REPEAT THE
2 QUESTION PLEASE.
3 "Q SURE. IF THEY
4 VIOLATED THAT DUTY, THEY SHOULD BE
5 HELD ACCOUNTABLE FOR THE VIOLATION OF
6 THAT DUTY; CORRECT?
7 "A YES. I THINK THEY
8 SHOULD BE ASKED TO EXPLAIN WHY.
9 "Q THEY SHOULD BE HELD
10 ACCOUNTABLE, SHOULDN'T THEY, SIR?
11 "A YES.
12 "Q DO YOU BELIEVE THAT
13 PHILIP MORRIS HAS A DUTY TO TELL
14 CONSUMERS WHAT IT KNOWS ABOUT THE
15 RISKS OF ITS PRODUCT?
16 "A YES, I DO.
17 "Q IT HAS HAD THAT DUTY
18 SINCE 1954; CORRECT?
19 "A WELL, I THINK IT'S
20 HAD THAT DUTY SINCE IT MANUFACTURED
21 CIGARETTES, YES.
22 "Q LET'S JUST STAY
23 WITH, FROM 1954 UNTIL TODAY, SIR.
24 "HAD THAT DUTY; CORRECT?
25 "A YES.
26 "Q AND IF IT VIOLATED
27 THAT DUTY, IT SHOULD BE HELD
28 ACCOUNTABLE; CORRECT?
3674
1 "A YES, I AGREE WITH
2 THAT.
3 "Q AND DO YOU AGREE
4 THAT PHILIP MORRIS HAD A DUTY NOT TO
5 MAKE FALSE PROMISES REGARDING ITS
6 PRODUCT?
7 "A I CERTAINLY AGREE
8 WITH THAT.
9 "Q IF IT VIOLATED THAT
10 DUTY, IT SHOULD BE HELD ACCOUNTABLE,
11 SHOULDN'T IT?
12 "A I THINK THAT'S
13 PROPER, YES.
14 "Q DO YOU BELIEVE THAT
15 PHILIP MORRIS HAD A DUTY NOT TO MAKE A
16 MISREPRESENTATION ABOUT ITS PRODUCTS?
17 "A ABSOLUTELY, YES. I
18 DO AGREE WITH THAT.
19 "Q AND YOU ABSOLUTELY
20 AGREE THAT IF IT VIOLATED THAT DUTY,
21 IT SHOULD BE HELD ACCOUNTABLE;
22 CORRECT?
23 "A I AGREE WITH THAT.
24 "Q DO YOU BELIEVE THAT
25 PHILIP MORRIS HAD A DUTY NOT TO MAKE
26 MISLEADING STATEMENTS ABOUT ITS
27 PRODUCT?
28 "A YES.
3675
1 "Q AND IF IT VIOLATED
2 THAT DUTY IT SHOULD BE HELD

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3 ACCOUNTABLE, SHOULDN'T IT, SIR?
4 "A YES, I AGREE.
5 "Q DO YOU BELIEVE THAT
6 PHILIP MORRIS HAD A DUTY NOT TO MAKE
7 FALSE STATEMENTS ABOUT ITS PRODUCT?
8 "A YES, I AGREE IT
9 SHOULD NOT MAKE FALSE STATEMENTS.
10 "Q AND IF IT VIOLATED
11 THAT DUTY, IT SHOULD BE HELD
12 ACCOUNTABLE; CORRECT?
13 "A YES, I AGREE WITH
14 THAT.
15 "Q AND YOU REALIZE THAT
16 PHILIP MORRIS HAS A DUTY NOT TO
17 KNOWINGLY MISREPRESENT THE QUALITY OF
18 ITS PRODUCT; CORRECT?
19 "A YES, I AGREE WITH
20 THAT.
21 "Q AND IF IT VIOLATED
22 THAT DUTY, IT SHOULD BE HELD
23 ACCOUNTABLE; CORRECT?
24 "A YES.
25 "Q NOW, PHILIP MORRIS,
26 OVER THE COURSE OF 1954 TO THE PRESENT
27 TIME, HAS PLACED ADS IN NEWSPAPERS AND
28 IN VARIOUS JOURNALS AND PERIODICALS
3676
1 ABOUT ITS PRODUCT; CORRECT?
2 "A YES, I BELIEVE SO.
3 "Q IT'S ISSUED PRESS
4 RELEASES ABOUT IT; CORRECT?
5 "A I BELIEVE SO. I
6 SHOULD SAY THAT I WAS OVERSEAS A GREAT
7 PART OF MY CAREER WITH PHILIP MORRIS
8 BUT I HAVE BEEN BACK HERE PROBABLY FOR
9 THE PAST DECADE OR SO SO I CAN TALK OF
10 THAT PERIOD.
11 "Q WELL, YOU KNOW THAT
12 THE CORPORATION, SIR, SINCE 1954, HAS
13 MADE PRESS RELEASES AND PUBLIC
14 STATEMENTS REGARDING ITS PRODUCTS,
15 DON'T YOU?
16 "A I CAN CERTAINLY TALK
17 ABOUT THE TIME THAT I HAVE BEEN
18 INVOLVED IN THE COMPANY, PARTICULARLY
19 SINCE I HAVE BEEN BACK IN THE UNITED
20 STATES.
21 "Q WELL, WE ARE TALKING
22 ABOUT A PERIOD FROM 1954 UP UNTIL
23 TODAY IN THIS LAWSUIT. DO YOU
24 UNDERSTAND THAT?
25 "A WELL, I UNDERSTAND
26 WHAT YOU ARE SAYING, YES, CERTAINLY.
27 "Q OKAY.
28 "A BUT I CANNOT SAY
3677
1 THAT I DO KNOW WHAT THEY HAVE BEEN
2 DOING SINCE 1954 BECAUSE I WAS AT
3 SCHOOL, I THINK, IN 1954 AND JUST
4 STARTED WORK.
5 "Q HAVE YOU LOOKED AT
6 THE STATEMENTS THEY HAVE MADE OVER THE
7 YEARS?

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8 "A I CAN'T SAY I HAVE
9 LOOKED AT STATEMENTS. I HAVE SEEN
10 SOME, CERTAINLY, SINCE THE TIME THAT I
11 HAVE BEEN RESPONSIBLE FOR THE
12 BUSINESS. I HAVE LOOKED AT THEM.
13 "Q YOU HAVE SEEN THE
14 FRANK STATEMENT; CORRECT?
15 "A I HAVE SEEN IT, YES.
16 "Q FIRST TIME YOU SAW
17 THE FRANK STATEMENT WAS WHEN YOU
18 TESTIFIED IN FRONT OF CONGRESS;
19 CORRECT?
20 "A YES. I -- ACTUALLY,
21 I HAD SEEN AN EXCERPT OF IT AT THE
22 1994 CONGRESSIONAL HEARING.
23 "Q AND THAT WAS THE
24 FIRST TIME YOU SAW THE FRANK STATEMENT
25 IN A CONGRESSIONAL HEARING; CORRECT?
26 "A THAT'S QUITE RIGHT,
27 YES.
28 "Q AND IT WAS PROVIDED
3678
1 TO YOU BY A CONGRESSMAN; IS THAT
2 RIGHT?
3 "A NOT PROVIDED TO ME,
4 IN FACT, HE HAD IT AS AN EXHIBIT AT
5 THE HEARING.
6 "Q YOUR LAWYERS DIDN'T
7 PROVIDE IT TO YOU, DID THEY?
8 "A NO, NO. BUT I
9 SHOULD ADD THAT I HAD NOT BEEN
10 INVOLVED IN THE TOBACCO OPERATIONS OF
11 AMERICA UNTIL THAT TIME.
12 "Q YOUR LAWYERS DIDN'T
13 PROVIDE THAT TO YOU; CORRECT?
14 "A NO, MY LAWYERS
15 DIDN'T PROVIDE ANYTHING TO ME.
16 "Q NOBODY FROM THE
17 TOBACCO OPERATION AT PHILIP MORRIS
18 PROVIDED THAT TO YOU; CORRECT?
19 "A NO, BUT I REALLY
20 WOULD LIKE TO AMPLIFY. I HAD JUST
21 BECOME RESPONSIBLE FOR THE TOBACCO
22 OPERATIONS IN THE UNITED STATES.
23 PRIOR TO THAT, MY ENTIRE
24 RESPONSIBILITIES WERE INTERNATIONAL
25 BUSINESS OUTSIDE THE UNITED STATES.
26 "Q WELL --
27 "A SO I WAS NOT
28 FAMILIAR AND I REALLY -- AND I REALLY
3679
1 DO HAVE TO EMPHASIZE THAT I WAS NOT
2 FAMILIAR WITH THE ACTIVITIES IN THE
3 UNITED STATES.
4 "Q SIR, DID YOU EDUCATE
5 YOURSELF ABOUT THE ACTIVITIES OF THE
6 COMPANY WHEN YOU TOOK OVER AS C.E.O.?
7 "A WHEN I TOOK OVER AS
8 C.E.O. I CAN TELL YOU EXACTLY WHAT I
9 DID. WHEN I TOOK OVER AS C.E.O. I
10 CONCLUDED I COULD DO ONE OF TWO
11 THINGS, SIR, I COULD SPEND THE REST OF
12 MY LIFE LOOKING BACKWARDS, TO EXAMINE

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13 WHAT IT HAD DONE FOR THE LAST 40
14 YEARS, OR TRY TO DO SOMETHING TO
15 RESOLVE THE ISSUES THAT HAVE BEEN
16 CONFRONTING US.
17 "Q SIR, DID YOU ATTEMPT
18 TO EDUCATE YOURSELF ABOUT THE HISTORY
19 OF THE COMPANY WHEN YOU BECAME C.E.O.,
20 YES OR NO?
21 "A WHICH PART OF THE
22 HISTORY, SIR, ARE YOU REFERRING TO?
23 "Q THE TOBACCO HISTORY
24 OF THE COMPANY. DID YOU ATTEMPT TO DO
25 THAT?
26 "A I AM NOT QUITE SURE
27 WHAT YOU MEAN, THE TOBACCO HISTORY,
28 THAT'S A LONG TIME.
3680
1 "Q YES.
2 "A WELL, I WILL
3 EXPLAIN.
4 "Q DID YOU ATTEMPT TO
5 FAMILIARIZE YOURSELF WITH THE HISTORY
6 OF TOBACCO SOLD BY PHILIP MORRIS WHEN
7 YOU BECAME C.E.O., YES OR NO?
8 "A NO. THE ANSWERS IS
9 NO.
10 "Q OKAY.
11 "A I DECIDED TO SPEND
12 MY TIME LOOKING FORWARD, TRYING TO
13 RESOLVE THE ISSUES THAT ARE
14 CONFRONTING US.
15 "Q NOW, WHEN PHILIP
16 MORRIS ISSUES PRESS RELEASES FOR
17 PUBLIC STATEMENTS, DO THEY INTEND THEM
18 TO BE ACCURATE?
19 "A CERTAINLY.
20 "Q DO THEY INTENT THE
21 PUBLIC TO RELY ON THEM?
22 "A CERTAINLY.
23 "Q DO THEY INTEND THE
24 CONSUMERS TO RELY ON THEM?
25 "A YES.
26 "Q DO THEY INTEND THE
27 PUBLIC HEALTH AUTHORITIES TO RELY ON
28 THEM?
3681
1 "A YES.
2 "Q NOW, WHEN YOU TOOK
3 OVER AS C.E.O. IN 1994, IS THAT RIGHT?
4 "A JUNE '94, YES.
5 "Q AND YOU SAID YOU
6 WANTED TO LOOK FORWARD, IS THAT WHAT
7 YOU SAID?
8 "A THAT'S EXACTLY WHAT
9 I SAID.
10 "Q AND YOU ALSO
11 PREPARED AN ANNUAL STATEMENT FOR 1994,
12 DIDN'T YOU?
13 MR. GOLDSTEIN: SORRY, MR. PIUZE, WE DID
14 NOT DESIGNATE THAT.
15 MR. PIUZE: WHERE DO YOU WANT ME TO
16 START?
17 MR. GOLDSTEIN: LINE 19.

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18 MR. PIUZE: (READING)
19 "Q YOU PREPARED A
20 LETTER TO THE SHAREHOLDERS TO BE
21 INCLUDED IN THE ANNUAL STATEMENT, DID
22 YOU NOT, SIR?
23 "A IN THE ANNUAL
24 REPORT?
25 "Q YES.
26 "A IN OUR '94 ANNUAL
27 REPORT, YES. THAT WOULD HAVE BEEN
28 PUBLISHED AROUND MARCH OF 1995.
3682
1 "Q OKAY. CAN YOU TURN
2 TO EXHIBIT 17,624. IT'S IN VOLUME 2,
3 SIR.
4 "A YES, I HAVE IT.
5 "Q THAT'S THE 1994
6 ANNUAL REPORT THAT WAS PUBLISHED
7 AROUND MARCH OF 1995.
8 "A IT'S NOT A VERY GOOD
9 COPY. YES, IT'S 1994.
10 "Q THAT'S YOUR --
11 THAT'S YOUR 'DEAR SHAREHOLDER' LETTER?
12 "A YES.
13 "Q NOW, THIS IS --
14 THESE ARE YOUR WORDS; CORRECT?
15 "A YES, THEY ARE MY
16 WORDS.
17 "Q AND YOU SIGNED THIS
18 ON FEBRUARY 24, 1995; CORRECT?
19 "A YES.
20 "Q NOW, AT THE
21 BEGINNING, YOU STARTED OUT BY TELLING
22 THE SHAREHOLDERS YOU ARE DELIGHTED TO
23 TELL THEM THAT ON BALANCE, '94 WAS A
24 VERY GOOD YEAR FOR PHILIP MORRIS;
25 CORRECT?
26 "A YES.
27 "Q IT WAS A YEAR OF
28 CONTINUED ROBUST GROWTH; CORRECT?
3683
1 "A YES.
2 "Q IT WAS A YEAR WHERE
3 THERE WAS CHALLENGE AND CHANGE, WITH A
4 NEW MANAGEMENT TEAM WORKING VIGOROUSLY
5 TO DEFEND THE COMPANY AGAINST OUTSIDE
6 THREATS; CORRECT?
7 "A YES.
8 "Q NOW, YOU THEN SET
9 FORTH HERE THAT NET EARNINGS WERE UP
10 17.4 PERCENT, EARNINGS PER SHARE WERE
11 UP 19 PERCENT, OPERATING REVENUES WERE
12 UP, ANNUAL DIVIDEND RATE WENT UP,
13 OPERATING CASH FLOW IS UP; CORRECT?
14 "A YES.
15 "Q AND RIGHT BELOW
16 THAT, YOU STATE: THE IMMEDIATE
17 PRIORITIES WERE CLEAR, CONTINUE TO
18 GROW PROFITABLY, REWARD SHAREHOLDERS
19 WITH HIGHER RETURNS AND WORK TO
20 OVERCOMING OBSTACLES THAT INHIBIT OUR
21 SUCCESS; CORRECT?
22 "A WELL, I HAVEN'T

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23 QUITE FOUND THAT. CAN YOU JUST DIRECT
24 ME TO IT, PLEASE.
25 "Q SURE. IT'S RIGHT
26 UNDER THE BULLET POINTS OF THE REVENUE
27 AND CASH FLOWS GOING UP. AND YOU ARE
28 TALKING ABOUT WHAT BILL MURROW --
3684
1 "A OH, YES, I SEE,
2 THANK YOU.
3 "Q AND YOU SEE
4 'OVERCOME THE OBSTACLES'?
5 "A YES.
6 "Q AND THAT OVERCOMING
7 OF THE OBSTACLE WAS GOING TO BE A TOP
8 PRIORITY FOR YOU, WASN'T IT IN, THAT
9 YEAR?
10 "A IT WAS VERY
11 IMPORTANT TO ME, YES.
12 "Q IN FACT, YOU CALLED
13 IT A TOP PRIORITY, DID YOU NOT?
14 "A WHERE DID I CALL IT
15 THAT, SIR?
16 "Q WELL, IF YOU GO ON A
17 COUPLE OF PAGES, WHERE YOU SEE
18 'DEFENDING YOUR COMPANY'?
19 "A UH-HUH. WELL, I
20 WON'T DISPUTE IT IN ANY EVENT.
21 "Q OKAY.
22 "A IT WAS VERY
23 IMPORTANT TO ME.
24 "Q ALL RIGHT. IF YOU
25 COULD GO BACK THEN TO 'GROWING THE
26 BUSINESS.'
27 "A UH-HUH.
28 "Q YOU STATE RIGHT
3685
1 AFTER 'GROWING OUR BUSINESS,' QUOTE,
2 'ONE ALL-CONSUMING AMBITION IS TO
3 CREATE WEALTH FOR OWNERS OF PHILIP
4 MORRIS,' CLOSE QUOTES, IS THAT
5 CORRECT?
6 "A THAT'S CORRECT.
7 "Q YOU DON'T SAY THERE,
8 OUR EQUALLY ALL-CONSUMING AMBITIONS IS
9 TO CREATE WEALTH AND PROTECT THE
10 PUBLIC HEALTH, DO YOU?
11 "A WELL, I THINK THAT'S
12 TAKEN FOR GRANTED BY MOST COMPANIES,
13 BY MY COMPANY.
14 "Q DID YOU SAY THAT,
15 SIR?
16 "A NO, I DIDN'T SAY
17 THAT, SIR. I DIDN'T SEE A NEED TO SAY
18 THAT.
19 "Q AND THE ONE
20 ALL-CONSUMING AMBITION WAS TO CREATE
21 WEALTH WHICH WAS YOUR PARAMOUNT
22 CONSIDERATION, ISN'T THAT RIGHT?
23 "A IT WAS ONE OF MY
24 MOST IMPORTANT CONSIDERATIONS, SIR.
25 "Q IT'S NOT WHAT YOU
26 SAY. YOU DON'T SAY THIS IS ONE OF MY
27 MOST IMPORTANT, YOU SAY IT'S YOUR ONE,

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28 ALL-CONSUMING --
3686
1 "A -- AMBITION.
2 "Q -- AMBITION, ISN'T
3 THAT RIGHT?
4 "A AMBITION, YES, SIR.
5 "Q AND YOU POINT OUT
6 THAT TOBACCO WAS FIRING, ON ALL
7 CYLINDERS, SETTING NEW RECORDS IN THE
8 U.S., AND ACHIEVING OUTSTANDING GROWTH
9 IN INTERNATIONAL MARKETS, DON'T YOU?
10 "A YES.
11 "Q AND YOU POINT OUT
12 THAT IN THE DOMESTIC TOBACCO BUSINESS,
13 YOU ADOPTED A PRICING STRATEGY FOR
14 MARLBORO CIGARETTES, DIDN'T YOU?
15 "A I CAN'T FIND THAT,
16 COULD YOU --
17 "Q RIGHT AT THE BOTTOM.
18 "A AHH, YES, I SEE
19 THAT, UH-HUH.
20 "Q DO YOU RECALL, DO
21 YOU RECALL THAT?
22 "A MOST DEFINITELY.
23 "Q AND THAT WAS
24 LOWERING THE PRICE, WASN'T IT?
25 "A YES, THAT WAS
26 REFERRED TO AS 'MARLBORO FRIDAY,' IT
27 WAS QUITE A SIGNIFICANT EVENT.
28 "Q AND HOW MUCH WAS THE
3687
1 PRICE LOWERED, HOW MUCH, SIR?
2 "A TO MY MEMORY, ABOUT
3 40 CENTS A PACK.
4 "Q 40 CENTS A PACK?
5 "A YES.
6 "Q AND THE VOLUME OF
7 SALES WENT UP DRAMATICALLY, DIDN'T IT?
8 "A THEREAFTER, YES.
9 "Q YES?
10 "A SALES RECOVERED,
11 THEY HAD COME DOWN SIGNIFICANTLY AND
12 WE RECOVERED.
13 "Q THEY WENT UP
14 SIGNIFICANTLY, DIDN'T THEY?
15 "A THEY CAME DOWN AND
16 WENT UP.
17 "Q AND YOU ARE AWARE,
18 ARE YOU NOT, THAT BASED ON MARKET
19 STUDIES DONE BY PHILIP MORRIS, THAT
20 PRICE IS A VERY SENSITIVE ISSUE FOR
21 TEENAGERS WHO SMOKE?
22 "A I AM NOT AWARE OF
23 THAT. I AM AWARE THE PRICE OF ANY
24 PRODUCT IS, IS SOMETHING THAT'S
25 EXTREMELY IMPORTANT.
26 "Q IS IT MORE IMPORTANT
27 FOR THOSE WHO HAVE LESS MONEY?
28 "A PRICE?
3688
1 "A YES.
2 "A YES.
3 "Q WOULD YOU AGREE WITH

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4 ME THAT IT'S FAIR TO ASSUME THAT, ON
5 BALANCE, TEENAGERS HAVE LESS MONEY
6 THAN THOSE PEOPLE WHO ARE ADULTS AND
7 IN THE WORKING WORLD?
8 "A YES, I WOULD SAY
9 THAT'S ACCURATE.
10 "Q AND DID YOU COUPLE
11 THIS REDUCTION OF PRICE WITH A
12 PROMOTION CAMPAIGN?
13 "A WE CERTAINLY
14 ANNOUNCED THAT WE HAD REDUCED THE
15 PRICE QUITE FORCEABLY, YES.
16 "Q BUT DID YOU HAVE
17 CONSUMER INCENTIVE PROMOTION CAMPAIGNS
18 COUPLED WITH THAT REDUCTION IN PRICE?
19 "A NOT TO MY KNOWLEDGE.
20 "Q WELL --
21 "A TO THE BEST OF MY
22 MEMORY, WE REDUCED THE PRICE BY 40
23 CENTS A PACK, AND WE HAD A VERY
24 SIGNIFICANT PROMOTIONAL CAMPAIGN OR
25 ADVERTISING CAMPAIGN TO MAKE THAT
26 AWARE TO THE PUBLIC.
27 "Q RIGHT. SO YOU HAD A
28 TREMENDOUS ADVERTISING CAMPAIGN TO
3689
1 MAKE THE PUBLIC AWARE OF THAT; IS THAT
2 RIGHT?
3 "A WE HAD A SIGNIFICANT
4 CAMPAIGN. IN FACT, I DON'T THINK WE
5 NEEDED TO DO QUITE AS MUCH AS WE DID
6 BECAUSE IT WAS SUCH A -- AN ITEM OF
7 NEWS.
8 "Q DIDN'T YOU JUST SAY
9 YOU HAD A TREMENDOUS ADVERTISING
10 CAMPAIGN?
11 "A WELL, SIGNIFICANT, I
12 SHOULD HAVE SAID.
13 "Q YOU SHOULD HAVE SAID
14 SIGNIFICANT?
15 "A I SHOULD HAVE SAID
16 SIGNIFICANT, YES.
17 "Q ALL RIGHT. NOW,
18 LET'S SEE WHAT YOU SAID TO THE
19 SHAREHOLDERS.
20 QUOTE, 'IN OUR DOMESTIC
21 TOBACCO BUSINESS, OUR PRICING STRATEGY
22 FOR MARLBORO CIGARETTES COUPLED WITH
23 TWO ENORMOUSLY SUCCESSFUL CONSUMER
24 INCENTIVE PROGRAMS, REVERSED SHARE
25 LOSSES.'"
26 "A THAT IS RIGHT.
27 "Q 'AND IN 1994,
28 CATAPULTED OUR BEST SELLING BRAND TO
3690
1 ITS HIGHEST RETAIL SHARE EVER,' CLOSE
2 QUOTES, CORRECT?
3 "A THAT IS RIGHT.
4 "Q SO YOU DID COUPLE
5 THE PRICING DECREASE WITH SOME
6 CONSUMER INCENTIVE PROGRAMS FROM
7 MARLBORO?
8 "A WELL --

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9 "Q DIDN'T YOU?
10 "A WELL, LET ME
11 EXPLAIN, IF I MAY. I DON'T THINK THEY
12 WERE CONJOINTLY. MY MEMORY WAS THAT
13 WE LOWERED THE PRICE AND THEN
14 SUBSEQUENTLY WE CONDUCTED A PROMOTION
15 WHICH WAS WHAT WE CALLED THE
16 'CONTINUITY PROGRAM OF MARLBORO GEAR.'
17 SO WHEN YOU SAID 'COUPLED,' THE
18 IMPRESSION I GOT WAS THAT YOU MEANT WE
19 DID THEM TOGETHER. I DON'T THINK WE
20 DID THEM TOGETHER. BUT I THINK WE DID
21 THEM IN THAT YEAR, ONE FOLLOWED THE
22 OTHER.
23 "Q WHAT YOU SAID WAS,
24 QUOTE, 'COUPLED WITH TWO ENORMOUSLY
25 SUCCESSFUL CONSUMER INCENTIVE
26 PROGRAMS, REVERSED PREVIOUS SHARE
27 LOSSES,' CLOSE QUOTES; CORRECT?
28 "A THAT'S WHAT IT SAYS,
3691
1 BUT I REALLY WAS TRYING TO EXPLAIN
2 WHAT THAT MEANT.
3 "Q WHAT YOU ARE SAYING
4 IS THAT THE CONSUMER INCENTIVE
5 PROGRAMS CAME A LITTLE BIT AFTER THE
6 PRICE INCREASE?
7 "A THAT'S MY MEMORY. I
8 DON'T -- I THINK THAT'S HOW IT
9 HAPPENED. WE REDUCED THE PRICE, I
10 THINK, IN APRIL, THEN THE PROGRAM
11 FOLLOWED SOMETIME LATER IN THE YEAR.
12 "Q OKAY. NOW, WHAT
13 TYPE OF CONSUMER INCENTIVE PROGRAMS
14 WERE THEY, MR. BIBLE?
15 "A MY MEMORY WAS IT WAS
16 A CATALOG WHERE YOU HAD BOUGHT PACKS
17 OF MARLBORO, THERE WERE, THERE'S A
18 LITTLE COUPON ON THE SIDE OF EACH
19 PACK, AND IF YOU COLLECTED THE
20 COUPONS, YOU COULD THEN WRITE IN OR
21 SEND THE COUPONS IN AND DEPENDING ON
22 HOW MANY COUPONS YOU HAD, YOU
23 QUALIFIED TO RECEIVE CERTAIN TYPES OF
24 GEAR.
25 "Q WHAT TYPE OF GEAR?
26 "A WELL, I CAN'T BE
27 QUITE ALL THAT ACCURATE, BUT THINGS
28 LIKE T-SHIRTS OR TORCHES OR JACKETS.
3692
1 "Q WHAT SIZES WERE THE
2 T-SHIRTS AND THE JACKETS?
3 "A WELL, THEY WOULD
4 ALL, ALL BE AN ADULT SIZE.
5 "Q ARE YOU SURE?
6 "A YES, I AM ABSOLUTELY
7 POSITIVE OF THAT.
8 "Q WHAT SIZES WERE THEY
9 WHEN THEY SAY THEY WERE ALL ADULT
10 SIZES?
11 "A ADULT SIZE BECAUSE
12 I --
13 "Q WELL, WHAT SIZE WAS

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14 THAT, SIR?
15 "A I DON'T KNOW
16 EXACTLY. BUT I CAN TELL YOU THIS,
17 THAT THE PEOPLE WHO RUN PHILIP MORRIS
18 U.S.A. HAVE A POLICY THAT ALL ITEMS OF
19 CLOTHING THAT ARE MADE AS PROMOTIONAL
20 ITEMS ARE MADE ONLY IN ADULT SIZES AND
21 I KNOW THEY DO THAT.
22 "Q THAT'S NOT WHAT I
23 ASKED YOU.
24 "A UH-HUH.
25 "Q I ASKED YOU IF YOU
26 KNEW WHAT SIZES THEY WERE AT THIS
27 TIME.
28 "A I AM NOT SURE WHAT
3693
1 THAT MEANS, ACTUALLY.
2 "Q WHEN YOU LOOKED
3 THROUGH THIS 'DEAR SHAREHOLDER LETTER'
4 ON THE NEXT PAGE, YOU TALK ABOUT
5 MAXIMIZING SHAREHOLDER VALUE; CORRECT?
6 "A YES.
7 "Q AND REALLY, IF WE
8 LOOK AT THE LETTER, IT IS DIVIDED INTO
9 ESSENTIALLY FOUR PARTS; CORRECT?
10 "A YES.
11 "Q FIRST PART IS
12 'GROWING THE BUSINESS,' AND THAT'S
13 WHERE YOU HAVE YOUR ONE ALL-CONSUMING
14 AMBITION TO CREATE WEALTH; CORRECT?
15 "A YES.
16 "Q THE NEXT ONE IS TO
17 MAXIMIZE SHAREHOLDER VALUE; CORRECT?
18 "A YES.
19 "Q OKAY. AND THAT
20 TALKS ABOUT THE TREMENDOUS CASH FLOW
21 GENERATED BY YOUR BUSINESSES; CORRECT?
22 "A WELL, CAN YOU POINT
23 ME TO THAT? I DON'T DOUBT THAT IT
24 SAYS THAT BUT -- OH, YES. YES, I DO
25 SEE THAT, OKAY.
26 "Q AND IT GAVE YOU A
27 RANGE OF OPTIONS; CORRECT?
28 "A UH-HUH.
3694
1 "Q AND THAT WOULD BE,
2 YOU COULD USE IT FOR DIVIDEND
3 INCREASES; CORRECT?
4 "A YES.
5 "Q COULD USE IT FOR
6 STOCK BU-BACKS; CORRECT?
7 "A YES.
8 "Q AND YOU COULD USE IT
9 FOR SELECTIVE ACQUISITIONS AND DEBT
10 REDUCTION; CORRECT?
11 "A YES.
12 "Q AND THAT WOULD
13 INCREASE RETURN; CORRECT?
14 "A YES.
15 "Q NOW, THIS TREMENDOUS
16 CASH FLOW COULD HAVE ALSO BEEN DEVOTED
17 TO OTHER PURPOSES, COULD IT NOT, HAD
18 YOU SO DECIDED?

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19 "A SUCH AS?
20 "Q SUCH AS ADVERTISING
21 TO YOUTH THAT THEY SHOULDN'T SMOKE,
22 SIGNIFICANT MONIES COULD HAVE DONE
23 THAT, COULDN'T YOU?
24 "A WE HAD ALREADY
25 INTRODUCED A PROGRAM, I THINK, SIR, IN
26 THAT YEAR.
27 "Q THAT'S NOT WHAT I
28 ASKED YOU. THE SIGNIFICANT CASH FLOW,
3695
1 INSTEAD OF GOING TO DIVIDEND
2 INCREASES, STOCK BUY-BACKS, SELECT
3 ACQUISITIONS AND DEBTS REDUCTION, THAT
4 MONEY COULD HAVE BEEN USED TO
5 ADVERTISE TO YOUTH, COULDN'T IT?
6 "A IT CERTAINLY COULD
7 HAVE BEEN, YES.
8 "Q THAT WAS AN OPTION
9 THAT WAS AVAILABLE TO YOU AS THE HEAD
10 OF THE COMPANY, WASN'T IT, SIR?
11 "A IT CERTAINLY WAS,
12 YES.
13 "Q NOW, THE NEXT
14 SECTION IS DEFENDING THE COMPANY;
15 CORRECT
16 "A UH-HUH. YES,
17 CORRECT.
18 "Q AND IN THIS FIRST
19 PARAGRAPH OF THIS DEFENDING YOUR
20 COMPANY, YOU SAY, YOU ARE GOING TO
21 PROTECT THE INVESTMENT, OUR BUSINESS
22 AND EMPLOYEES AND THE RIGHTS OF
23 CONSUMERS TO ENJOY OUR PRODUCTS, ARE
24 ALL TOP PRIORITIES FOR THIS MANAGEMENT
25 TEAM; CORRECT?
26 "A YES."
27 MR. PIUZE: SORRY. YOUR HONOR, I RAN
28 RIGHT PAST THE NOON HOUR.
3696
1 THE COURT: I KNEW YOU DID, AND I WAS
2 LETTING YOU DO IT BECAUSE I THOUGHT YOU WERE
3 GETTING PRETTY CLOSE TO THE END.
4 MR. PIUZE: THIS IS THE -- WHAT'S LEFT OF
5 DIRECT EXAMINATION. I WILL DO WHATEVER THE COURT
6 WANTS, OF COURSE. I WILL DO WHATEVER THE COURT
7 WANTS. THERE'S A LOT MORE AT THE END.
8 THE COURT: OH, OKAY. WELL, LADIES AND
9 GENTLEMEN, I LET IT RUN OVER A LITTLE BIT, IT IS
10 NOT MR. PIUZE'S FAULT. IT WAS MINE. I WAS LETTING
11 IT GO. WE WILL TAKE OUR NOON BREAK AND BE BACK AT
12 1:30 THIS AFTERNOON. DON'T DISCUSS THE CASE WITH
13 ANYONE.
14
15 (AT 12 NOON, THE LUNCH
16 RECESS WAS TAKEN TO
17 1:30 P.M. OF THE SAME DAY.)
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